

Cap Insurance Rates

Not Injured Workers' Care

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INJURED WORKERS, ADVOCATES RELEASE PROFITS DATA: CALL FOR 27% PREMIUM CUT, EXCESS PROFITS CAP

SACRAMENTO – VotersInjuredatWork.org and the California Applicants Attorneys Association (CAAA) today released new data on excess profits by workers compensation insurers and called for a cap on excess insurance company profits and a 27% cut in workers' compensation insurance premiums for July 2005. "New research documents that workers' compensation premiums sharply increased as claims costs plunged," Mark Hayes, President of VotersInjuredatWork.org, a nonprofit advocacy group for Californians injured at work and their families. "This new research proves that the insurance industry has failed to lower rates only because of its own greed. The insurance carriers cried 'wolf' about rising costs last April when SB 899 was being voted on. These new figures show that the truth was that claims costs had already come down dramatically in 2003."

Injured workers protested what Hayes called "obscenely high profits" by insurers. The reform advocates called for a 27% rate cut for July 1, and passage of legislation to cap excess profits (SB 46 – Alarcon). "Workers' compensation insurance is required, but is not regulated, which means insurers hold businesses and injured workers hostage," said Sugarman. "The system is broken and the governor has only taken care of the insurance companies, not businesses or injured workers."

Mark Gerlach, an insurance industry expert, compiled the data from reports filed by insurance companies themselves. "Outpatient and pharmaceutical fee schedule limits and other changes in 2003 (AB 749 and SB 228) cut medical costs dramatically," said Gerlach. "The only 'crisis' that existed in 2004 was the failure of the insurance industry to lower its rates. California workers' compensation insurers have pocketed more than \$6 billion in profits just from the premiums businesses are paying. That doesn't even include their investment income, which is usually their most profitable area. Insurers are paying out in workers' benefits less than 50 cents of every dollar employers pay in premiums."

Gerlach noted that insurers' costs declined sharply in 2004 because of statutory changes that had already taken effect, including elimination of the treating doctor's presumption of correctness, introduction of an outpatient fee schedule and a revised pharmaceutical fee schedule, and the introduction of the ACOEM Guidelines, which has caused widespread denials of needed medical treatment.

Injured Workers, Advocates Release New Data Showing Insurance Carriers Created Rate 'Crisis,' Call for 27% Insurance Rate Reduction, Excess Profits Cap, June 1, 2005, page 2

Gerlach said that a 27% rate reduction is warranted, "Rates went up for some businesses by 200%, 300% or more. Now most insurers have reduce their rates by 20% or less. The industry claims that their current profits are not excessive because the average profit over the past decade is still low – that's absurd. Last year's profit of 28% of the premium, before investment income, is grossly excessive by any measure."

"Most California employers will barely notice the modest reductions being offered," said Gerlach. "Injured workers' compensation and medical care have been gutted, but insurers continue to conduct business as usual."

Insurance carriers are reporting that their California workers' compensation line of business continues to provide record profits. AIG, for example, the state's largest private workers' compensation insurer, reported record profits of \$11.05 billion for 2004, up 19% over 2003.

Zenith National Insurance Company, with California workers' compensation insurance representing almost two-thirds of its business, reported 2004 profits of \$119 million, up from \$67 million in 2003. Income (before taxes) from Zenith's workers' compensation operations grew at an even faster rate in 2004, climbing more than **250 percent** from \$29.3 million in 2003 to \$104 million in 2004. Zenith has filed for a measly 12% decrease in premiums for July 1 policies.

American Financial Group, another top ten workers' compensation insurer in California, reported that "solid underwriting profits" from its California Workers' Compensation business contributed to the record profits reported for 2004. Earnings from insurance operations were up 43 percent in the fourth quarter of 2004. The company reported sharply increased profits following the recent enactment of Gov. Schwarzenegger's bill. The percentage of California workers' compensation premium paid out in benefits and expenses dropped from 92.6 percent in the fourth quarter of 2003 to just 84.1 percent in 2004, giving the company a 16 percent profit even before considering investment income.

"Huge cost savings have already been realized by insurance carriers," said Hayes. "But insurers have refused to lower rates and are instead gorging on excess profits. Meanwhile, a horror show of misery continues for Californians injured on the job. Injured workers are losing their cars, health, homes and dignity while insurers pocket record profits. The governor has benefited the insurers who've given him large campaign contributions at the expense of some of the poorest, most vulnerable working Californians. We are determined to change this one-sided system."

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<http://www.DenialofCare.org/>