

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988

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ATTACHMENT #3

**"CLASSIFICATION IS FUNDAMENTAL TO WORKERS'
COMPENSATION PRICING"**

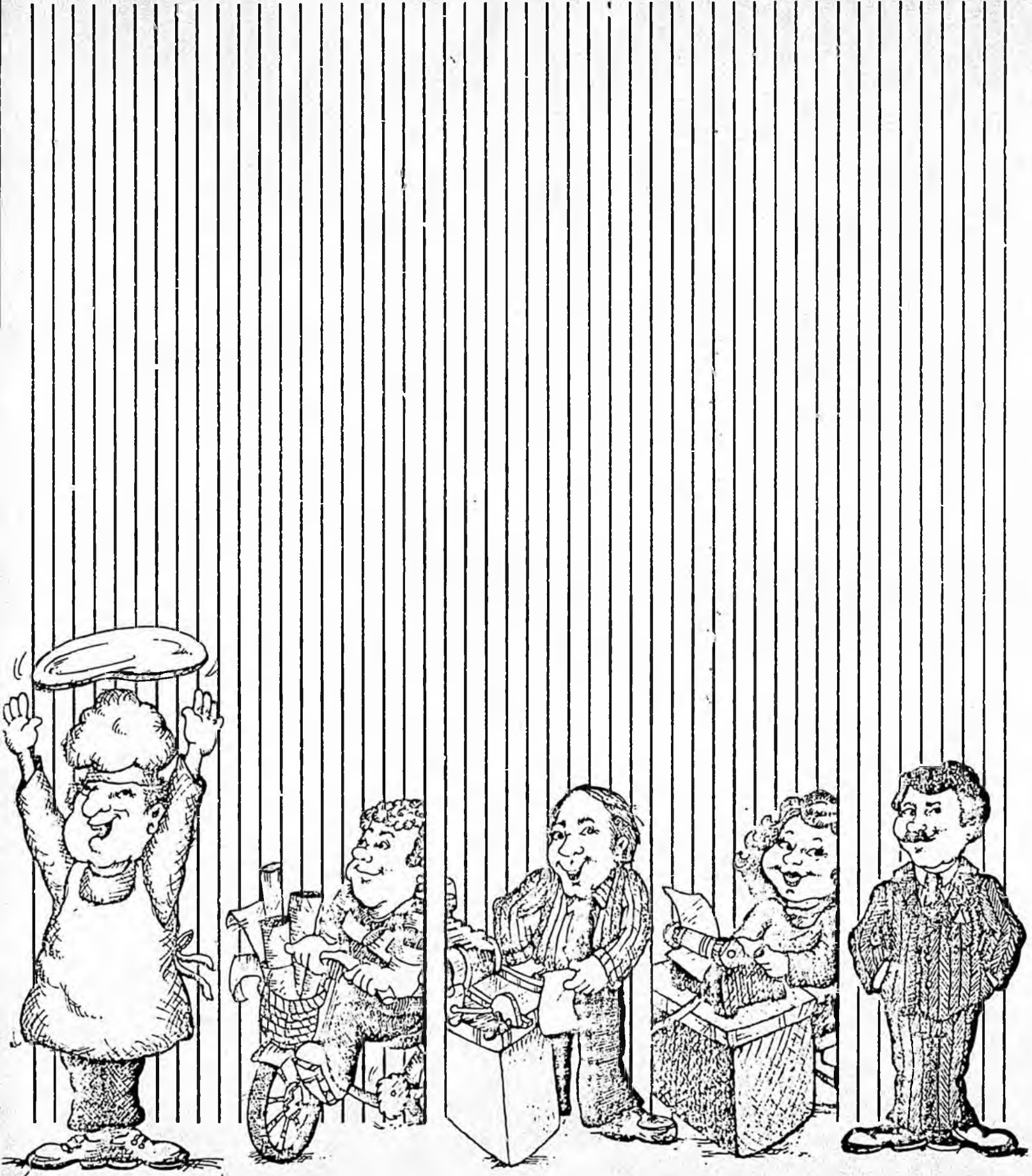
Booklet published by the National Council on Compensation Insurance.

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12 pages.

National
Council on
Compensation
Insurance

Classification is
Fundamental to
Workers' Compensation
Pricing



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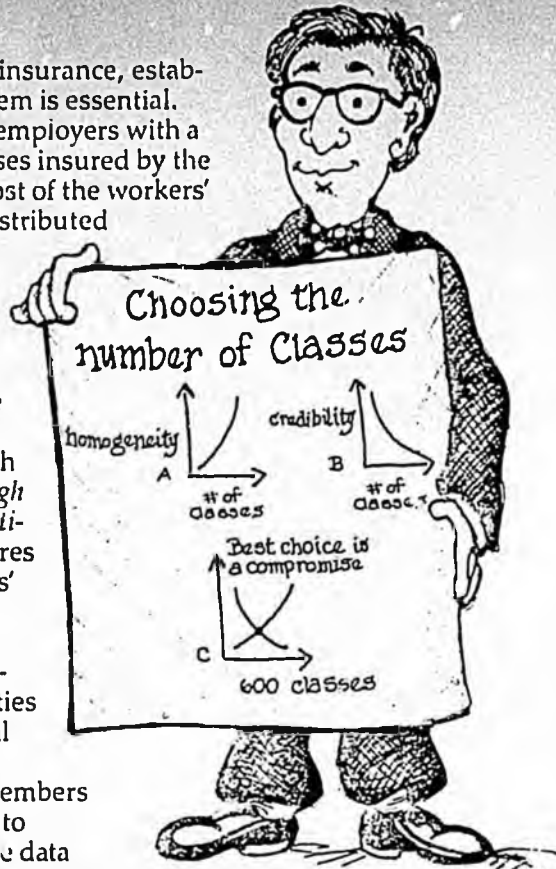
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DEPARTMENT OF COMMERCE
& ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE

Introduction

In workers' compensation insurance, establishing a classification system is essential. Each classification groups employers with a similar exposure to the losses insured by the policy so that the overall cost of the workers' compensation system is distributed fairly among the employers. Each classification is assigned a rate which is commensurate with its potential for loss.

To ensure an equitable distribution of costs, each classification should be both *homogeneous* and *large enough to provide a meaningful statistical base*. This, in turn, ensures the integrity of the workers' compensation data base, essential for the pricing, experience rating, law evaluation, and research activities undertaken by the National Council on Compensation Insurance (NCCI) for its members and subscribers. The need to preserve the integrity of the data base has been acknowledged through legislation in those states which have adopted competitive rating laws.



"...some industries are inherently more dangerous than others."



The need for classifications can be understood best by imagining a situation without them. With no classifications, a single average price would prevail, distributing the premium required to pay benefits equally among all insureds. This obviously would be inequitable because some industries are inherently more dangerous than others. Without classifications, the premium charge for high hazard industries would be insufficient, while premiums for low hazard industries would be excessive. In effect, the low hazard businesses would be subsidizing the high hazard ones. A classification system serves to distribute premium among employers in an equitable manner, consistent with statistically supportable differences in loss expectation among different kinds of businesses.

Once it has been determined that some form of classification system is necessary, the next step is deciding upon the proper number of classifications. Because all businesses are distinct, there is always some variation among them and, theoretically, all employers in a state could be arrayed in a continuous spectrum from the least to the most hazardous. Thus, the maximum possible number of classifications would be equal to the number of employers in the state, with one classification for each employer. However, few of these "classifications" would produce statistically reliable experience.

At the other extreme, as mentioned above, would be the single statewide classification producing one manual rate. Although the single rate would be a statistically reliable indicator of expected losses, it would produce an extremely inequitable distribution of premium.

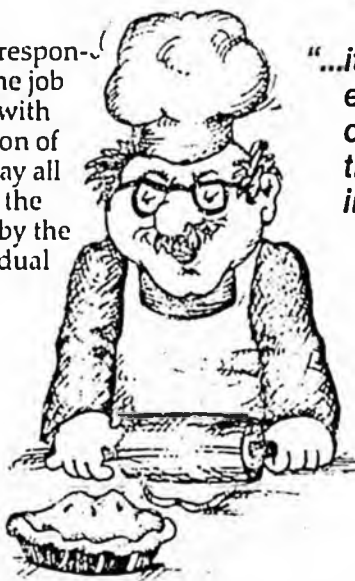
As opposed to these two impractical extremes, workers' compensation insurance uses approximately 600 industrial classifications. This system groups employers involved in the same kind of business. Generally, similar businesses have similar exposures to occupational injury and disease, even though no two businesses are identical.

The experience for each classification is tabulated and serves as the basis for the "manual rate" for that classification. The manual rate is the average price for all employers in the classification. In practice, it tends to produce the premium charge for smaller employers—typically, no more than 15 workers—while for larger employers, the manual premium (i.e., the premium produced by the application of the manual rates to total payroll of the insured) is subject to experience modification based upon the employer's own history of losses. The application of the experience modification can produce a premium higher or lower than the manual premium, depending upon the insured's experience. Other NCCI publications are available upon request explaining the theory and application of experience rating.

The object of the workers' compensation classification system is to group similar employers so that each classification reflects exposures common to them. Subject to certain exceptions to be discussed below, it is the business of the employer (the insured) within a state that is classified, and not the separate employments, occupations, or operations of individual employees within the business. Several reasons for this are:

1. A workers' compensation insurance policy agrees to pay "all compensation and other benefits required of the insured by the workmen's compensation law." Although the injured worker is the beneficiary of the policy, it is the business which is actually insured.

2. Workers' compensation laws hold the employer responsible for compensation benefits to workers injured on the job without any regard to fault. The law places the liability with the employer and the insurance contract, in consideration of payment of premium, obliges the insurance carrier to pay all compensation-related costs established by law. Because the employer's liability is covered, employers are classified by the business undertaken rather than by the duties of individual workers.



"...it is the business of the employer...that is classified, and not the...operations of individual employees..."

3. In addition to being consistent with the principles of workers' compensation insurance, this procedure promotes safety and loss prevention and reduces the expenses of administering the insurance program. By grouping employers in accordance with the nature of the business, each industry has the opportunity to control its own workers' compensation costs through industry-wide safety and loss prevention programs, such as those sponsored by industry trade associations. If such programs produce a lower frequency of accidents, that improved experience will tend to lower manual rates.

If, on the other hand, a classification system were based upon the individual duties of each employee, each classification would cut across industry lines, and a single industry's safety program, even if successful, would have little impact on its premium costs because it would affect only a small proportion of the total number of workers in the various categories and not alter rates significantly. Thus, classification by industry serves to promote loss prevention and on-the-job safety better than classification by individual occupation.

4. Under a system of classification by individual occupation, total losses would not be affected substantially, although there would be a redistribution of premium, with some employers paying more and others paying less. Such a classification system would almost certainly cause the costs of administering the insurance program to rise. Insurance carriers would be required to audit payroll more closely and to verify proper claim assignment. To enable the carriers to perform these more time consuming and costly audits, employers would be required to keep more extensive records. Not only would the additional record keeping be a source of valid complaint from employers, but a classification procedure based on individual employee duties could result in unfair discrimination between those employers maintaining proper records and those unwilling or unable to maintain them. Reviewing and resolving such complaints at all levels, as well as the increased audit, verification, and record keeping expenses for all parties, would produce increased costs for providing workers' compensation insurance protection.

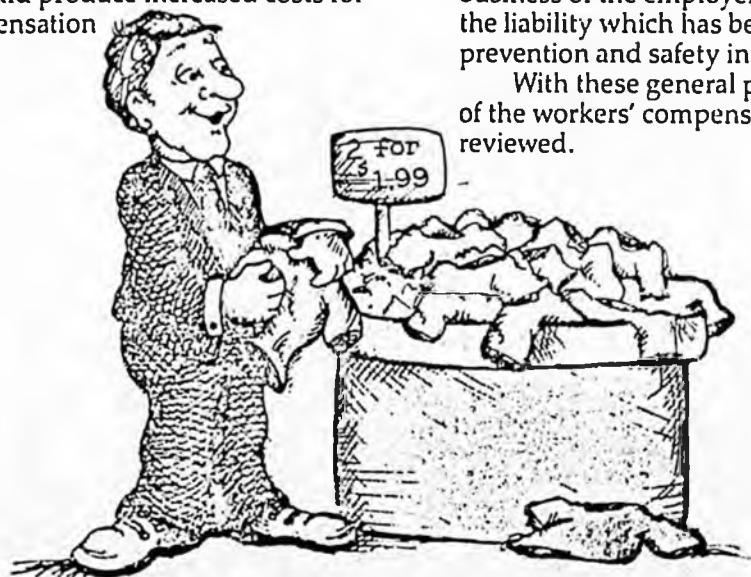


"...similar businesses have similar exposures to occupational injury and disease, even though no two businesses are identical."



In summary, a classification system based upon the business of the employer has the dual advantage of reflecting the liability which has been insured, while encouraging loss prevention and safety in a cost effective manner.

With these general principles in mind, the evolution of the workers' compensation classification system will be reviewed.



Explanation of Classifications

All the classifications, with the exception of the Standard Exception classifications to be explained below, are called basic classifications. Each basic classification is assigned a four-digit code number. Basic classifications describe the business of the employer, such as:

Business	Classification	Code Number
Manufacture of a Product	Furniture Mfg.—Wood NOC*	2883
A Process	Engraving	4352
Construction or Erection	Carpentry NOC	5403
A General Type or Character of Business	Hardware Store	8010
A Service	Beauty Parlor	9586

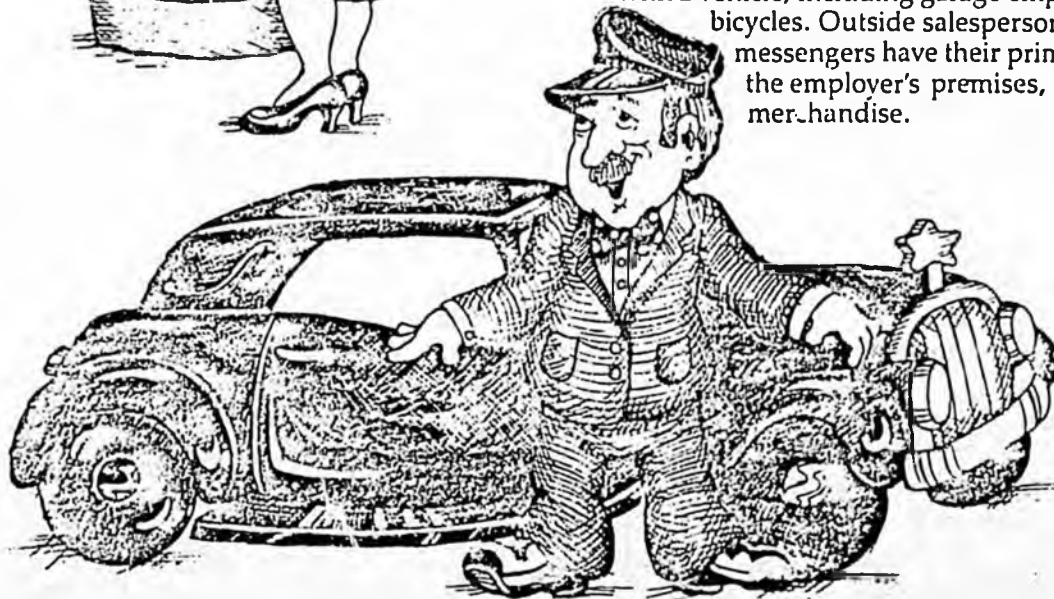
*Not Otherwise Classified.

Classifications are listed alphabetically in the *Basic Manual for Workers' Compensation and Employers' Liability Insurance*. In some instances, explanatory footnotes follow the classification listing and these notes are considered part of that classification. There is also a *Classification Code Book* which lists all classifications in numerical order and arranges all classifications into 32 main industry divisions called schedules, which are subdivided into 133 smaller groups of classifications having similar characteristics. As will be explained below, the Code Book can be very helpful in determining a classification assignment because it groups industries with similar operational characteristics. In the numerical listing, all active classifications will be found, including classifications which apply in each state using the Basic Manual, "state specials" (classifications applicable in only one or a few states), and discontinued classifications, incorporating, in many instances, an indication of the classification to which the experience of the discontinued classification was assigned.

Standard Exceptions

Three occupations are common to so many businesses that special classifications have been established for them. These *Standard Exception* classifications cover clerical office and drafting employees; drivers, chauffeurs, and their helpers; and outside salespersons, collectors, and messengers. Employees covered by a standard exception classification are not included in a basic classification unless the basic classification language specifically includes them.

While the Basic Manual provides specific instruction for the use of the standard exception classifications, generally, clerical office or drafting employees are confined exclusively to office work in areas physically separated from other operations. Drivers, chauffeurs, and their helpers are engaged in duties in connection with a vehicle, including garage employees and those using bicycles. Outside salespersons, collectors, and messengers have their primary duties away from the employer's premises, but do not deliver merchandise.



General Inclusions

All of the basic classifications include certain operations which would be classified separately were they to be run as independent businesses. Such operations are called *General Inclusions* and include employee cafeteria operations, the manufacture of packing containers, medical facilities for employees, printing departments, and maintenance work. They are included in the scope of each classification because they are a routine part of most business operations.



General Exclusions

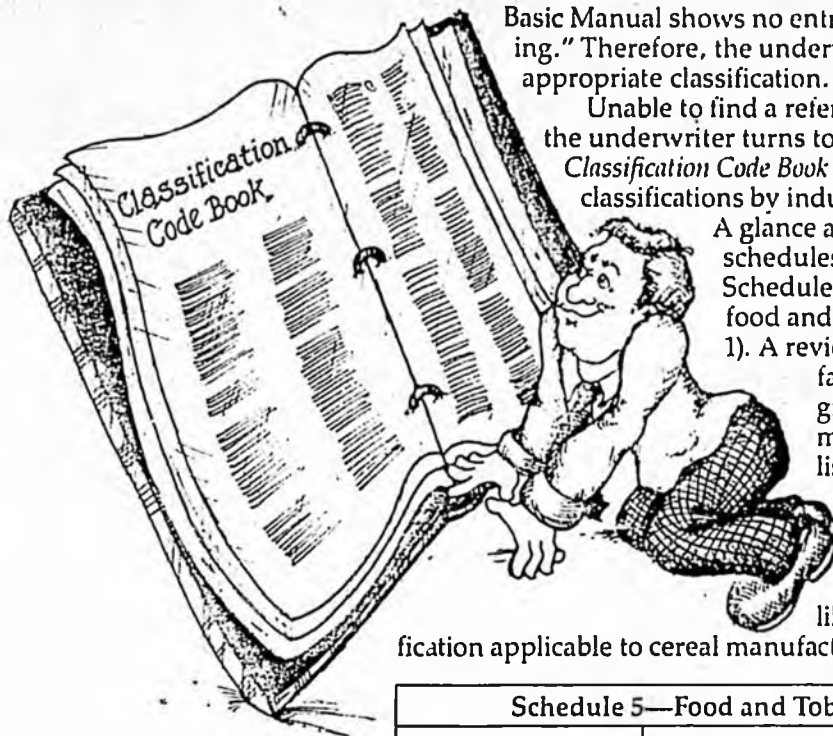
Just as some operations are general inclusions, there are other operations so exceptional that they are excluded from the scope of the basic classifications. These *General Exclusions* include aircraft operation, new construction by the insured's employees, stevedoring, and saw mill operations.

To summarize, insureds are assigned to classifications according to the principle of using the one classification that best describes the routine business of the employer, with the general inclusions, but excluding standard exception employees and general exclusion operations.



Classification Assignment

Having discussed the general theory of classification and the application of classifications, the approach followed by an underwriter or classifier in assigning a classification to an unfamiliar business will be described. Assume, for these purposes, that the insured is a small employer manufacturing corn flakes. A review of the classification pages of the Basic Manual shows no entry for "cereal manufacturing." Therefore, the underwriter must find the appropriate classification.



Unable to find a reference in the Basic Manual, the underwriter turns to the yellow pages in the *Classification Code Book* which lists the manual classifications by industry schedule and group.

A glance at the index of industrial schedules narrows the search to Schedule 5, which applies to the food and tobacco industries (Step 1). A review of the 32 schedules fails to indicate any other group under which cereal manufacturing might be listed.

By reviewing the groups comprising Schedule 5, Group 050, "Baking" seems the most likely to include a classification applicable to cereal manufacturing (Step 2).

Schedule 5—Food and Tobacco Industries	
Group Numbers	Industries
050	Baking
051	Grain, Sugar and Starch Products
052	Confections and Food Sundries
053	Dairy Products
054	Livestock Handling and Meat Products
055	Preserving and Canning
056	Brewing and Bottling
057	Tobacco

Group 051, which includes grain products, also would be considered, but the classifications in the group include beet sugar manufacturing, corn products, dextrine or starch manufacturing, grain milling and feed manufacturing, and sugar refining. These grain products are not similar to breakfast cereals, so the possibilities have been narrowed to the baking group. This process of elimination is quickly accomplished, even for a person not familiar with the classifications, because it is easy to determine at a glance which schedules and groups are inappropriate.

The search has been narrowed to Group 050, which includes four classifications (Step 3).

Group 050—Baking	
Bakery & salespersons, route supervisors, drivers	2003
Breakfast Food Mfg	2016
Cracker Mfg	2001
Macaroni Mfg	2002

The proper classification is Code 2016, entitled "Breakfast Food Manufacturing." Thus, by the process of progressively narrowing the search, the proper classification for corn flake manufacturing has been found. Essentially, this is the procedure undertaken by the classifier or underwriter when determining the appropriate classification assignment for each employer at the time the policy is issued.

While the object of the workers' compensation classification procedure is to assign the one basic classification which best describes the business of an employer within a state, a single classification may not be sufficient. In such cases, procedures have been established to provide for the use of more than one classification as required. For example, different basic classifications may be assigned to separate legal entities insured under a single policy.

If more than one legal entity may be combined in a single policy because of common ownership, in most jurisdictions each enterprise would carry its own basic classification code. Multiple basic classifications also may be assigned in two other circumstances. In the first, a basic classification may require that certain operations or employees be rated separately. For example, Code 4299—"Playing Cards Mfg."—contains the footnote, "paper or cardboard mfg. to be separately rated as 4239." In the second instance, multiple basic classifications may be assigned to an employer who operates a secondary business within the state requiring the assignment of an additional basic classification.

For the assignment of additional basic classifications, all of the following conditions must exist. The secondary business either must be conducted as a separate enterprise or, in accordance with the classification phraseology of the principal classification, it must be treated as a separate enterprise. Separate payroll records must be maintained and each business must be separated physically. Finally, the assignment of a separate classification must not be prohibited by any classification otherwise assigned to the policy.

While the general classification principle is to group similar businesses to produce a fair and equitable manual rate, this approach is not practical in the building trades where contractors undertake different projects using several construction trades for varying periods of time until completion of the project.

In the construction and erection industry it is not possible to define employers having similar average work forces, so each distinct kind of construction or erection operation at the job site is assigned to the classification specifically describing the trade, provided that separate records of payroll are maintained. For small specialty contractors, such as plumbers or electricians, this procedure produces the same result as is the case in non-contracting businesses—a single classification for the entire business. For larger general contractors using different trades during different phases of the project, the classification procedure produces multiple classifications on the policy and develops a manual premium weighted by the distribution of employee work in the several trades.

Because loss prevention and safety programs are developed generally for specific trades and skills, this classification approach for construction and erection incorporates the same safety incentive as the classification by industry for other kinds of businesses.

Classification Dynamics

The theory of classification has been reviewed and workers' compensation classification applications have been explained briefly. While insurance and classification theory require the grouping of like or similar employers with common expectations of losses, it would be a mistake to assume that the classification structure is a rigid, unchanging system in which square pegs are forever being forced into round holes.

There are two important ways in which the classifications used for workers' compensation are continuously changing and evolving. Each classification combines the payroll and losses of similar employers to develop a price for the protection. Through invention, discovery, and innovation, industries are continually refining and upgrading their operating procedures. More efficient manufacturing machines are developed, automation is introduced, raw materials sometimes change, and better assembly methods are devised. Such changes, however, do not occur overnight. Some employers are quick to innovate, while others hesitate to change tried and true methods. Gradually, however, new processes replace old, and the means and materials of business operations change while the basic product remains the same.

When annual rate revisions are made, total state premium needs are distributed to individual classifications, based on the three latest years of payroll and losses. A new year of experience is added annually and the oldest year is discarded. As industry conditions evolve, reflecting modernization and better conditions, so the experience upon which the rate is based continually changes. While the classification describing an industry may not change, the experience for that industry is continually changing and tracking conditions within the industry, with the manual rates revised accordingly.

One of the more common comments to the NCCI is that the classification language has not kept pace with the changes in industry nomenclature. The proverbial garbageman becomes a "sanitation engineer" and later a "solid waste manager," while the classification language still refers to garbage, ashes, or refuse collection. While classification language may not change as rapidly as fashion, the experience does change and reflects the use of newer equipment and operating techniques.

The second, and more important, way in which the classification system changes is through the continual monitoring by the NCCI and its member companies. Classification questions are reported to regional offices by local field offices and, in turn, by the regional offices to the NCCI headquarters in New York. Classifications generating frequent complaints are reviewed to determine whether revisions are needed.

When the workers' compensation system came into existence countrywide after 1911, approximately 1,400 classifications were inherited from workmen's collective and employers' liability coverage which had existed prior to the adoption of the workers' compensation laws. Between 1911 and 1919, the formative years of the workers' compensation system, the classifications were gradually reduced to approximately 800 in the early 1920's and then to approximately 600 in the early 1930's. From 1934 through the mid-1970's, there was no broad restructuring of the classification system. However, the introduction of new classifications over the years produced a net increase to approximately 700 classifications. In the mid-1970's, a major review was undertaken to eliminate and reassign approximately 100 classifications developing little or no payroll in most states. Thus, many of the 600 classifications now used describe industries and businesses that did not exist several years ago.

These changes in classifications have been the result of



requests from various groups of employers for separate classification treatment or the recognition by the insurance industry of the need for a single classification where two or more classes had applied. The typical request from outside the insurance industry for a new classification seeks a subdivision of an existing classification into the two or more components involved in the emergence of new methods of operation. For example, in 1977, a new classification was introduced for self-service gasoline stations, as distinct from a single classification for all gasoline stations.

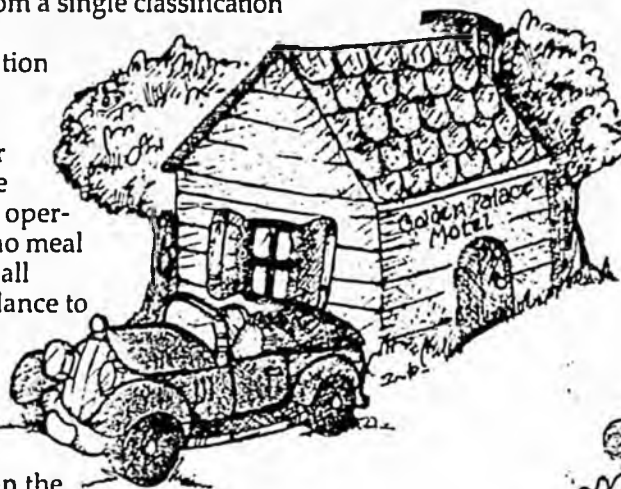
Perhaps the best example of evolution in the classification system itself is the motel industry. Until the mid-1940's, "motels" were usually tourist cabins or tourist courts and were classified in the manner as camps, i.e., under building operation. These early "motels" provided no meal service and were usually a series of small roadside cabins, bearing scant resemblance to the hotels found in urban areas. Travel increased after the Second World War, creating the need for better lodging facilities. This change was recognized by the introduction of a separate classification code for motels in the early 1950's.

By 1960, it became apparent that the loss emergence of hotels and motels was converging and, at that time, the two classifications were combined for ratemaking (producing the same rate for each) because of the similarity of exposure. Finally, in 1974, the separate classification code number for motels was discontinued in recognition of the fact that hotel and motel operations were virtually the same.

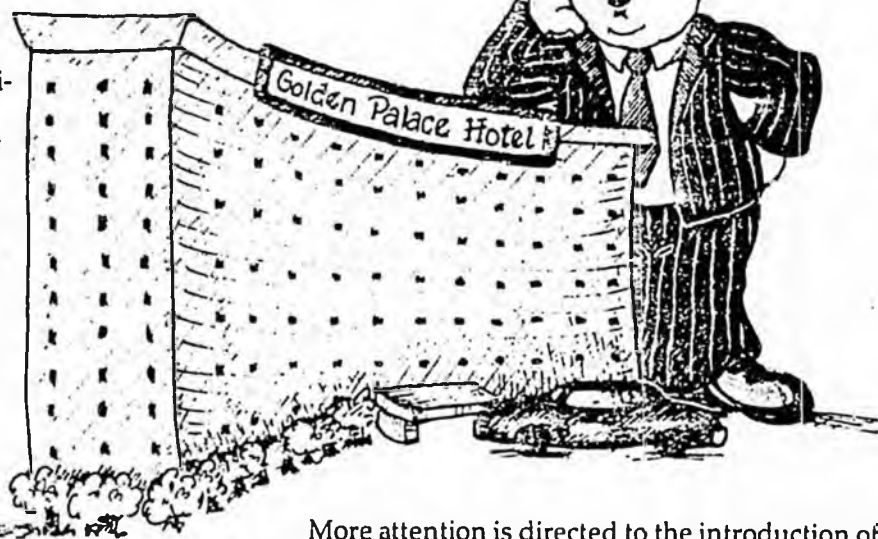
As part of the general upgrading of services over the years, motels gradually began to offer food service. Sometimes the motel would be next to a diner—perhaps operated by the same owners—or else would have a small area providing breakfast and basic meal service. Again, over the years conditions have evolved to the point where most motels provide food and entertainment services. Recognition of the distinction between motel operations and food service operations led to the creation of a separate classification for restaurants operated by motels. Thus, the history of this industry illustrates the response of the workers' compensation classification system to changes in business conditions.

The introduction and elimination of classifications is based on studies conducted by the NCCI and insurance carriers interested in a particular industry or classification problem. In general, the introduction of a separate classification requires a group of employers with similar methods of operation or producing a common product which can be distinguished from other businesses.

The group of employers also must be sufficiently large to produce payroll and losses which will be meaningful for ratemaking purposes.



"...new processes replace old, and the means and materials of business operations change..."



More attention is directed to the introduction of new classifications than to the elimination of classifications for industries or operations which have become obsolete. This is because the fading or diminishing of a classification does not call attention to itself. New industries, on the other hand, command attention because of the extra effort needed to determine the proper classification assignment by analogy or because of requests for recognition from the industry or its representatives.

Classification Administration

At the beginning of this booklet, it was explained that classifications are necessary for the development of a fair and equitable distribution of the overall premium among individual employers. Classification experience also is used as a predictor of future premium needs for each group of employers. For this reason, the classification system is the foundation upon which workers' compensation pricing rests. To the extent that any business is misclassified, the underlying data for two classifications are incorrect, for the wrong payroll and losses are added to the experience of the classification wrongly assigned and the correct classification lacks the payroll and losses properly assignable to it.

Accordingly, the administration of the classification system is one of the most important functions of the NCCI. This duty is carried out in two ways. First, the local field office receives a copy of each policy indicating the classification assigned. These are compared with records of prior coverage for consistency and continuity. If a classification appears improper, further information is sought from the insurance carrier and appropriate action is taken.

The second way in which the classification system is administered is through a systematic inspection program.

The inspection program is carried out by the local field office and involves a visit to the premises of the insured to obtain first-hand information concerning the nature of the business operation. At the local office, the inspection report then is reviewed by classifiers who issue classification notices to the insurance carrier. It has been NCCI's experience that no meaningful differences in classification develop from inspections in 80% of the cases. The remaining 20% divide almost equally between the need for higher or lower rated classifications. This indicates that while there is no inherent bias in the system to seek more business by underpricing, or higher premiums through misclassification, there is much room for reducing misunderstandings and misinterpretation.

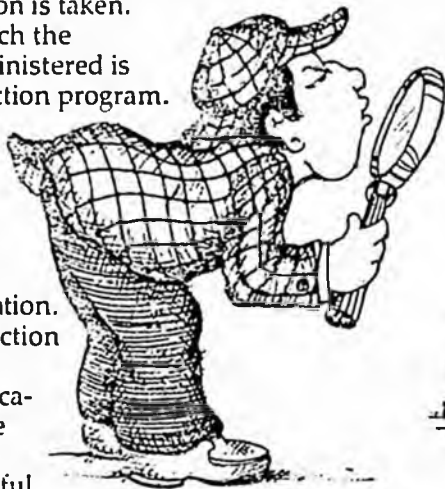
The inspection program is designed to periodically review individual insureds subject to experience rating. Particular attention is given to situations where an inspection is necessary to resolve a classification assignment question.

Concentration on the larger employers represents efficient allocation of resources because these businesses generate the bulk of the premium volume for most classifications. An inspection report, as can be seen in the example in Exhibit I, (see page 12) contains a description of the business operations, allocation of employees, machines in use, and a description of the finished products. The inspector also will look for interchange of labor and he obtains other basic identifying information needed for record keeping. Through the inspection program, the classification system is monitored continuously to ensure its proper application.

Conclusion

A properly functioning classification system is necessary both for a fair and equitable distribution of premium needs and for the development of the necessary statistical information to prepare manual rates. The average classification rate provides a reference against which individual employer experience is compared to develop a modification of the manual premium for employers subject to experience rating. This approach is a practical, proven system which produces a reasonable premium allocation. While other systems could be devised, the total premium needs would not be lessened and additional administrative costs might actually be greater.

The classification system places all employers conducting the same business in the same classification. This reflects the fact that employers engaged in the same business will have similar operations and employee distribution. The workers' compensation pricing programs are an interwoven system, with experience rating specifically designed to measure individual employer differences within a classification. The classification system is based upon sound insurance theory and is a practical, non-discriminatory procedure benefiting both the insurance buyer and seller by being cost efficient while promoting safety and loss prevention.



"The inspection program is designed to periodically review individual insureds subject to experience rating."

NCCI Locations

NCCI National Office, New York City

**NCCI Rating Division and
Data Processing Center, New Jersey**

**NCCI Midwest Regional Office, 1999 Wabash Avenue, Suite 205,
P.O. Box 1238, Springfield, Illinois 62705—Monitors NCCI
Offices Servicing Illinois, Indiana, Iowa, Kansas, Missouri,
Nebraska, Oklahoma and South Dakota**

**Illinois Council on Compensation Insurance, 1999 Wabash
Avenue, P.O. Box 1666, Springfield, Illinois 62705—
Services Illinois**

**Indiana Compensation Rating Bureau, 5920 Castleway, West
Drive, P.O. Box 50940, Indianapolis, Indiana 46250—Services
Indiana**

**Kansas Council on Compensation Insurance, P.O. Box 1577,
3601 West 29th Street, Topeka, Kansas 66601—Services Kansas**

**Missouri Council on Compensation Insurance, 10825 Watson
Road, P.O. Box 8530, St. Louis, Missouri 63127—Services
Missouri**

**North Central Council on Compensation Insurance, 4685 Merle
Hay Road, OakMoor II, Suite 101, Des Moines, Iowa 50323—
Services Iowa, Nebraska and South Dakota**

**Oklahoma Council on Compensation Insurance, 777 N.W.
Grand Boulevard, Suite 100, Oklahoma City, Oklahoma 73118—
Services Oklahoma**

**Coal Mine Council on Compensation Insurance, 10825 Watson
Road, P.O. Box 8530, St. Louis, Missouri 63127—Services Coal
Mines**

**NCCI Southern Regional Office, 320 Beacon Parkway, West, Box
C-40, Birmingham, Alabama 35283—Monitors NCCI Offices
Servicing Alabama, Arkansas, Florida, Georgia, Kentucky,
Louisiana, Mississippi, South Carolina and Tennessee**

**Arkansas Council on Compensation Insurance, 307 Donaghey
Building, 7th & Main, Little Rock, Arkansas 72201—Services
Arkansas**

**Florida Council on Compensation Insurance, North Regency
One, Suite 300, 9485 Regency Square Boulevard, P.O. Box 8899,
Jacksonville, Florida 32211—Services Florida**

**Louisiana Council on Compensation Insurance, 3501 North
Causeway Boulevard, Suite 600, Metairie, Louisiana 70002—
Services Louisiana**

**South Carolina Council on Compensation Insurance, 3710
Landmark Drive, Suite 109, P.O. Box 4383, Columbia, South
Carolina 29240—Services South Carolina**

**Southeastern Council on Compensation Insurance, 320 Beacon
Parkway, West, Box C-40, Birmingham, Alabama 35283—
Services Alabama, Georgia, Kentucky, Mississippi and
Tennessee**

**NCCI Western Regional Office, One Tamarac Square, Suite 500,
7555 E. Hampden Avenue, Denver, Colorado 80231—Monitors
NCCI Offices Servicing Alaska, Arizona, Colorado, Idaho,
Montana, New Mexico, Oregon and Utah**

**Alaska Council on Compensation Insurance, 620 S.W. 5th
Avenue, Suite 1110, Portland, Oregon 97204—Services Alaska**

**Montana Council on Compensation Insurance, 620 S.W. 5th
Avenue, Suite 1110, Portland, Oregon 97204—Services Montana**

**Mountain States Council on Compensation Insurance, One
Tamarac Square, Suite 504, 7555 E. Hampden Avenue, Denver,
Colorado 80231—Services Arizona, Colorado, Idaho, New
Mexico and Utah**

**Oregon Council on Compensation Insurance, 620 S.W. 5th
Avenue, Suite 1110, Portland, Oregon 97204—Services Oregon**

**NCCI Eastern Regional Office, 998 Old Eagle School Road, Suite
1210, Wayne, Pennsylvania 19087—Monitors NCCI Offices
Servicing Connecticut, District of Columbia, Maine,
Maryland, New Hampshire, Rhode Island and Vermont**

**Mid-Atlantic Council on Compensation Insurance, 305 W.
Chesapeake Avenue, Baltimore, Maryland 21204—Services
District of Columbia and Maryland**

**Northeastern Council on Compensation Insurance, P.O. Box 60,
21 Wintonbury Mall, Bloomfield, Connecticut 06002—Services
Connecticut, Maine, New Hampshire, Rhode Island and
Vermont**

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

December 18, 1987

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Senate Committee on
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Anchorage, Alaska 99503

Honorable Dave Donley
Chair
House Committee on Labor
and Commerce
3111 C Street
Suite 450
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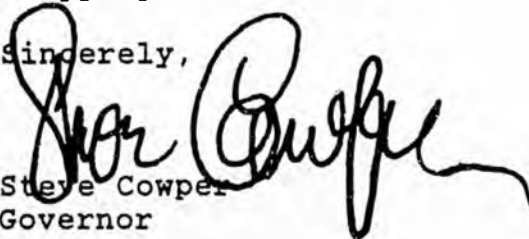
Dear Chairman Kelly and Chairman Donley:

I wish to take this opportunity to thank the members of the Labor/Management Workers' Compensation Task Force who employed their own time and money to put together the report you will review today. I am always encouraged by the initiative shown by private citizens.

I know that the State Department of Labor put considerable time into providing information to the task force. This analysis of data and the suggested alternatives will provide a major focus for our thinking on this issue which is at the heart of the relationship between workers and business.

I commend the task force for its innovative and thoughtful approach to this complicated issue and look forward to working with your committees on appropriate solutions.

Sincerely,


Steve Cowper
Governor

STATE OF ALASKA
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
P. O. BOX D
JUNEAU, ALASKA 99811

Opening Comments for Public Meeting Concerning Revised
Workers' Compensation Insurance Rates to be Effective
January 1, 1988.

Good afternoon. My name is Don Koch. I am a special Deputy for the Alaska Division of Insurance. This is not a hearing in the usual sense. This is a public informational meeting or forum designed to give you an opportunity to hear how the worker's compensation rate filing effective on January 1, 1988 was constructed. Hopefully an insight and understanding as to how that process developed.

With me today are two representatives of the National Council on Compensation Insurance, Mr. Stan Sparks and Mr. Mark Mulvanney.

My opening remarks borrow freely from an Order I wrote last December concerning a rate filing that was under consideration at that time. Much is unchanged from that time to this.

The the National Council on Compensation Insurance is a national rating organization licensed by the State of Alaska. The members and subscribers of the the National Council on Compensation Insurance are insurance companies writing worker's compensation insurance in the various states. The the National Council on Compensation Insurance does statistical compilation of data, including premium, payroll, loss and expense data, on behalf of its member and subscriber insurance companies. It makes rate and policy form filings with the State of Alaska on behalf of its member and subscriber insurers.

On October 16, 1987, the the National Council on Compensation Insurance filed a rate change for worker's compensation insurance on behalf of its member and subscriber companies to be effective January 1, 1988 on new and renewal policies. The overall statewide premium level increase resulting from implementation of that filing is 25.1%. The components of the increase are:

- increase due to experience..... +22.1%
- increase due to change in trending +01.3%
- reduction to reflect anticipated decrease in the state
average weekly wage..... -00.01%
- increase for tax to reflect Guaranty Fund Assessments.. -01.1%

The overall average of 25.1% is further broken down into four (4) major industry groupings, each with a different impact from the filing reflecting that groups' contribution to the loss level. The industry groups are manufacturing, contracting, oil & gas, and all other. Within the groups, individual classifications can move an additional $\pm 25\%$ from the group overall indication, further reflecting the particular experience of the individual classification. The four groups, the indicated rate change by group, and the range of rate movement for classifications in each group are:

<u>GROUP</u>	<u>IMPACT</u>	<u>RANGE of IMPACT</u>
Manufacturing	+10.5%	-14.0% to +36.0%
Contracting	+29.0%	+4.0% to +54.0%
Oil & Gas	+43.0%	+18.0% to +68.0%
All Other	+17.6%	-7.0% to +43.0%

These impacts are distributed to individual classifications. There are a total of 546 classifications used in the the National Council on Compensation Insurance classification manual. Of the 546 classifications, 434 classifications had some payroll for the period used to determine classification relativity in Alaska. Of that 434 classifications, about 116 classifications had more than \$10 million of payroll over a three year period in Alaska. The total numbers of classifications in the manual by industry group are:

GROUP	TOTAL NCCI CLASSES	SOME ALASKA PAYROLL	+10 MILLION ALASKA PAYROLL
Manufacturing	294.	102.	7
Contracting	67.	63.	27
Oil & Gas	11.	11.	7
All Other	174.	158.	75

The current filing is not unusual in terms of the review process that led to its filing with the Division of Insurance. Much of the methodology utilized tracks with filing methods that have been used in the past in this state and found to be acceptable in past reviews. It is, in a sense, routine, though its impact is not.

Since 1974, Market Surveillance Section of the Division of Insurance, has closely monitored workers' compensation insurance experience of insurers writing that line of insurance in Alaska. The purpose was to measure competition and to develop an independent base with which to gauge the proposals of the National Council on Compensation Insurance. By applying Division of Insurance devised formulas and tests to this base information, which is limited in its sophistication, the Division of Insurance has generally been able to predict rate changes within two or five percent of the actual proposal and to do so about six months before a filing is proposed. In other words, it gets us in the ball park concerning what to expect. Since this approach does lack sophistication and is not accurate to the degree desirable for ratemaking purposes, the results of these tests have not been widely publicized. One concern is that the tests done by the Division of Insurance should not be available for potential use by insurers as part of the support for rate change proposals.

Utilizing this process, I noted in June 1986 that there was a likelihood of a significant filing to be effective on January 1, 1987. At that time the Market Surveillance Section concluded that a 21.5% overall premium level increase would be needed and that due to data anomalies the true need was probably closer to 30%. The data anomalies referred to, are the impacts of reserve strengthening attributable to prior years.

Using a similar process this year, I concluded that a filing in the range of 33% would be needed for 1988. I also noted that certain tests applied by insurance commissioners across the country suggested that the majority of insurance companies writing worker's compensation insurance have substantial reserve deficiencies based on the latest filings of annual reports. This, if anything tends to suggest that the need is even greater than our tests indicate that it is. Again there are data anomalies that, given an adequate data base and sufficient sophistication, are subject to fine tuning and development of a believable rate indication, albeit unpopular.

Typically, the Division of Insurance looks at losses in relation to the premium accompanying the losses. Recently, I had occasion to look at losses isolated from the premium and I had a bit of a shock. In 1983 worker's compensation losses were \$70,678,000; in 1984, they were \$89,789,000; in 1985 they were \$124,447,000; and in 1986 they were \$150,294,000. That is more than doubled in a four year period and with a decreasing payroll base to boot.

When the Division of Insurance receives an insurance rate filing from an insurance company or a rating organization such as the National Council on Compensation Insurance, it does so under standards found in AS 21.39.030 which provide that the rates shall not be excessive, shall not be inadequate, and shall not be unfairly discriminatory.

The documentation provided with the filing supports the contention that the current rate structure is inadequate. Independent data developed by the Division of Insurance suggests that the proposed level requested does meet the statutory tests.

The standards set forth in the rate law (AS 21.39) do not provide, nor should it provide, for the application of political or economic considerations when reviewing a rate filing. The law was specifically designed to avoid just that occurrence. Viewing it from these considerations, this filing could not have come at a worse time. The economy has been devastated by factors with which you are all familiar. These place pressures on such a filing which while recognized, can not be considered under the law.

The Division of Insurance does not influence the benefits available under the Alaska Workers' Compensation Act. Those are established by the legislature and administered by the Alaska Workers' Compensation Board. The Alaska Worker's Compensation Board generally becomes involved only with the specific request of the claimant, but the Division of Insurance can not. There is one additional party regularly appearing on the scene, again via the claimant, and that is the court system.

The Division of Insurance does not deal with individual consumer complaints involving workers' compensation insurance. These are the jurisdiction of the Alaska Worker's Compensation Board.

When the Legislature addresses an issue relating to workers' compensation insurance, the role of the Division of Insurance is to attempt, through the National Council on Compensation Insurance, to determine the price impact of the proposed legislation. The Division of Insurance does not and should not take an advocacy posture as respects changes to the benefit structure in the Alaska Workers' Compensation Act.

The Division of Insurance does have a strong role in the efficiency of operation of the rating systems utilized by insurers writing workers' compensation insurance. It has a strong interest in factors that affect the data base from which rates are derived. It is concerned with issues that can influence the accuracy of the data base underlying the rate structure. Because of these interests and concerns, the Division of Insurance wants to:

- assure the proper reporting and gathering of payroll data;
- assure the proper and equitable application of the filed classification system; and,
- assure the proper conduct of persons writing coverage for an employers workers' compensation liability.

During the public hearing held last year, witnesses testified to some of the frustrations experienced. In many cases, the Division of Insurance does not have jurisdiction to address the kinds of problem described. Numerous issues were discussed in the hearing and more in correspondence and in telephonic communications. Many times, the extent of recognition of these

problems is the stereotypical comment, "it's not my job." While to a great extent that may be true of the issues witnesses have brought to us in the hearing last year, we did commit to at least describe the issues for the benefit of those who may be in a position to address them or to dismiss them. This was done via the Order issued last December. The issues brought to our attention include:

- questions of jurisdiction;
- trying to determine whether an individual is an independent contractor or will be held to be an employee;
- trying to have something done about a claimant who is known to the employer to be malingering or abusing the system;
- dramatic change in cost with short notice;
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- rate disparity between Alaska and other jurisdictions;
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- the perception that board or court decisions are too liberal;
- the increasing cost of medical;
- the growth of the legal expenses in the system;
- the problems with the rehabilitation portion of the act;
- perception that the act is not enforced; and
- more.

When a rate increase such as this goes into effect, it applies to new and renewal business as has already been noted. This fact itself offers both pain for some and relief for others depending on when the particular employers' policy expires and whether the change is an increase or a decrease. It impacts the cost effectiveness of an employer depending at what point he is bidding a job and whether his workers' compensation insurance costs for the period bid are known when bidding. With that in mind, this proceeding today is the most notice that has ever been seen for a January 1 rate filing. In the future, this procedure will be used for experience based filings. You will have 60 days advance notice that a change is eminent. That is not a lot, but it is a significant advance over past practice.

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

STEVE COWPER, GOVERNOR

P. O. BOX D
JUNEAU, ALASKA 99811-0800
PHONE: (907) 465-2515

December 2, 1987

MARK

Honorable Tim Kelly
Alaska State Senate
P.O. Box 21-0001
Anchorage, AK 99521

Dear Senator Kelly:

Re: Soldotna Hearing

Thank you for the opportunity to be of assistance during the hearing in Soldotna on November 27, 1987. Enclosed is a copy of the prepared remarks I presented then. Please note that some numbers on page 2 are different than those I gave in testimony. This printed version incorporates the correct numbers. These are:

I indicated that there were about 546 classifications in use by the National Council on Compensation Insurance; the number should be 543.

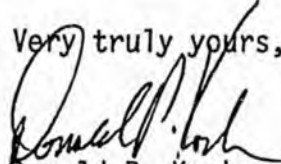
I indicated that there were about 400+ of those classifications with some payroll; the actual number is 338.

I indicated that there were about 116 or 118 of those classifications with a three year Alaska payroll in excess of \$10,000,000; the actual number is 120.

Also enclosed is a rate history of the 120 classifications. The payroll numbers are a three-year total. If needed, I can supply the breakdown by year. The three credibility numbers are a measure of how close to self-rating the particular class is for serious indemnity loss, nonserious indemnity loss, and medical loss.

I will be putting together the numbers you have requested during the hearing. As soon as they are complete, I will send them to you.

Very truly yours,


Donald P. Koch
Special Deputy

DPK/mst0603K
120287a

**Workers' Compensation Insurance
January 1, 1988 Rate Change
Soldotna Hearing, November 27, 1987**

Good afternoon. My name is Don Koch. I am a Special Deputy for the Alaska Division of Insurance. I head the market surveillance section within the Division, which is responsible for rates, forms, market availability, market contact, market conduct examinations, and market access. In addition to general oversight of the market conduct section, I am the person who deals with the Division's responsibility in the area of workers' compensation insurance.

As most of you know, the Division has received a filing from the National Council on Compensation Insurance which provides for a substantial increase in workers compensation insurance rates, and after review, has approved the filing for use as January 1, 1988.

The the National Council on Compensation Insurance is a national rating organization licensed by the State of Alaska. The members and subscribers of the the National Council on Compensation Insurance are insurance companies writing worker's compensation insurance in some 32 states. The National Council on Compensation Insurance does statistical compilation of data, including premium, payroll, loss and expense data, on behalf of its member and subscriber insurance companies. It makes rate and policy form filings with the State of Alaska on behalf of its member and subscriber insurers.

On October 16, 1987, the the National Council on Compensation Insurance filed a rate change for worker's compensation insurance on behalf of its member and subscriber companies to be effective January 1, 1988 on new and renewal policies. The overall statewide premium level increase resulting from implementation of that filing is 25.1%. The components of the increase are:

- increase due to experience..... +22.1%
- increase due to change in
trending..... +01.3%
- reduction to reflect anticipated
decrease in the state average
weekly wage -00.01%
- increase for tax to reflect
Guaranty Fund Assessments..... -01.1%

The overall average of 25.1% is further broken down into four (4) major industry groupings, each with a different impact from the filing reflecting that groups' contribution to the loss level. The industry groups are manufacturing, contracting, oil & gas, and all other. Within the groups, individual classifications can move an additional ±25% from the group overall indication, further reflecting the particular experience of the individual classification. The four groups, the indicated rate change by group, and the range of rate movement for classifications in each group are:

<u>GROUP</u>	<u>IMPACT</u>	<u>RANGE of IMPACT</u>
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These impacts are distributed to individual classifications. There are a total of 543 classifications used in the National Council on Compensation Insurance classification manual. Of the 543 classifications, 338 classifications had some payroll for the period used to determine classification relativity in Alaska. Of that 338 classifications, about 120 classifications had more than \$10 million of payroll over a three year

period in Alaska. The total numbers of classifications in the manual by industry group are:

<u>GROUP</u>	<u>TOTAL NCCI CLASSES</u>	<u>SOME ALASKA PAYROLL</u>	<u>+10,000,000 ALASKA PAYROLL</u>
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The current filing is not unusual in terms of the review process that led to its filing with the Division of Insurance. Much of the methodology utilized tracks with filing methods that have been used in the past in this state and found to be acceptable in past reviews. It is, in a sense, routine, though its impact is not.

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Since this approach does lack sophistication and is not accurate to the degree desirable for ratemaking purposes, the results of these tests have not been widely publicized. One concern is that the tests done by the

Division of Insurance should not be available for potential use by insurers as part of the support for rate change proposals.

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YEAR	LOSSES
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The Division of Insurance does not deal with individual consumer complaints involving workers' compensation insurance. These are the jurisdiction of the Alaska Worker's Compensation Board. The Alaska Worker's Compensation Board is primarily an adjudicatory body, not a regulatory one. The Division of Insurance on the other hand is primarily a regulatory body. We can and do become involved in unfair trade practices, and we are currently are in the regulation adoption process for claim practices.

When the Legislature addresses an issue relating to workers' compensation insurance, the role of the Division of Insurance is to attempt, through the National Council on Compensation Insurance and whatever other resources to which we have access, to determine the price impact of the proposed legislation. The Division of Insurance does not and should not take an advocacy posture as respects changes to the benefit structure in the Alaska Workers' Compensation Act.

The Division of Insurance does however have a strong role in the efficiency of operation of the rating systems utilized by insurers writing workers' compensation insurance. It has a strong interest in factors that affect the data base from which rates are derived. It is concerned with issues that can influence the accuracy of the data base underlying the rate structure. Because of these interests and concerns, the Division of Insurance wants to:

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- rate disparity between Alaska and other jurisdictions;
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When a rate increase such as this goes into effect, it applies to new and renewal business as has already been noted. This fact itself offers both

pain for some and relief for others depending on when the particular employers' policy expires and whether the change is an increase or a decrease. It impacts the cost effectiveness of an employer depending at what point he is bidding a job and whether his workers' compensation insurance costs for the period bid are known when bidding. With that in mind, the current filing is the most notice that has ever been seen for a January 1 rate filing. In the future, this procedure will be used for experience based filings. Employers will have 60 days advance notice that a change is eminent. That is not a lot, but it is a significant advance over past practice.

The Division is now attempting to identify areas of difficulty, with the aim to try to alleviate them. For example:

We will shortly be placing some new requirements on insurance companies to inform insureds about changes in the system which they intend to apply, and to do so up front rather than at audit.

The Division has available a number of publications printed by the National Council on Compensation Insurance which help to explain parts of the rating system. We routinely send these to persons requesting them.

We expect to have a consumer brochure ready for employers that will also provide what we hope will be helpful information.

We will be imposing revised rules concerning eligibility in the assigned risk pool when nonpayment of premium due is because of a contested audit.

We are now attempting to fill two additional positions which will be involved in market conduct examinations, thus giving us the ability to

physically review the files of an insurance company for compliance with Alaska law.

WORKERS' COMPENSATION RATE HISTORY
CLASSIFICATIONS WITH MORE THAN
\$10,000,000 FOR PERIOD 4/1/82 - 3/31/85
BY INDUSTRY GROUP

Prepared by: ALASKA DIVISION OF INSURANCE
November 25, 1987

MANUFACTURING CLASSIFICATIONS †10.5%
Rate Range from -14.0% to †36.0%

Code Classification Credibility	Payroll (millions)	Rates per \$100 Payroll		
		1988 Change	1987 Change	1986
2003 Bakeries 18 32 70	16.8	7.40 †33.3%	5.55 †26.7%	4.38
2104 Seafood Processors 92 100 100	176.7	8.33 -4.3%	8.70 -12.0%	9.88
2111 Canneries 14 29 69	11.7	7.79 †16.9%	6.66 †25.4%	5.31
2802 Carpentry Shop Only 25 43 100	19.6	10.49 †25.2%	8.38 †27.0%	6.60
3632 Machine Shops 19 31 86	14.3	8.52 †11.0%	7.67 †27.0%	6.04
4207 Pulp Mfg Chemical Process 9 15 65	11.0	3.82 †35.9%	2.81 -7.6%	3.04
4299 Printing 12 23 52	16.7	4.29 †27.6	3.36 †21.3%	2.77
4304 Newspaper Publishing 16 31 65	19.2	5.74 †1.9%	4.35 †11.2%	3.91
4740 Oil Refining Petroleum 24 30 81	17.3	6.15 -14.0%	7.15 0.0%	7.15

CONTRACTING CLASSIFICATIONS +29.0%
Rate Range from +4.0% to +54.0%

Code Classification Credibility	Payroll (millions)	Rates per \$100 Payroll		
		1988 Change	1987 Change	1986
3365 Welding or Cutting NOC 41 64 100	28.6	11.20 +15.3%	9.71 +17.7%	8.25
3719 Oil Still Erection or Repair 38 80 100	23.3	15.53 +38.3%	11.95 +7.3%	11.14
3724 Millwright 71 47 100	38.3	21.77 +54.0%	14.14 +45.9%	9.69
5022 Masonry NOC 33 44 77	14.0	14.16 +8.3%	13.07 +12.8%	11.59
5057 Iron or Steel Erection or Repair 68 53 100	13.8	51.68 +46.7%	35.22 +42.5%	24.71
5183 Plumbing NOC 100 100 100	198.9	11.73 +28.4%	9.13 +21.6%	7.51
5190 Electrical Wiring in Buildings 100 100 100	241.2	8.73 +10.3	7.91 +37.6%	5.75
5213 Concrete Construction NOC 100 100 100	81.2	23.98 +29.5%	18.51 +37.1%	13.50
5221 Concrete Floor Driveways Sidewalks 31 50 84	24.2	9.41 +20.0%	7.84 +16.8%	6.71
5403 Carpentry NOC 100 100 100	260.6	17.51 +28.9%	13.58 +7.3%	12.66
5445 Wallboard Installation in Buildings 45 67 100	31.6	16.84 +38.1%	12.19 +41.6%	8.61
5474 Painting or Paper Hanging NOC 45 63 100	32.9	10.66 +4.0%	10.25 +13.9%	9.00
5479 Insulation Work 30 46 92	11.4	22.45 +38.6%	16.19 +30.3%	12.42
5506 Street or Road Paving Repaving 59 86 100	32.9	22.67 +39.6%	16.23 -4.0%	16.90

CONTRACTING CLASSIFICATIONS Continued

5507 Street or Road Construction 72 75 100	82.1	10.50	6.82	7.10
		+54.0%	-4.0%	
5538 Sheet Metal Work Erection NOC 75 96 100	64.9	17.44	11.82	8.10
		+47.5	+46.0%	
5551 Roofing All Kinds 61 64 100	18.7	36.21	32.36	22.17
		+11.8%	+46.0%	
5606 Contractors Executive Supervisors 66 92 100	102.9	6.91	5.30	4.32
		+30.3%	+22.7%	
5646 Carpentry Const Private Residence 100 100 100	100.8	17.66	15.67	10.82
		+12.6%	+44.8%	
5651 Carpentry Const Priv Res 3 Story 54 71 100	31.6	18.80	14.41	13.85
		+30.4	+4.0%	
6204 Drilling NOC 59 75 100	19.0	38.50	25.14	22.88
		+53.1%	+9.9%	
6217 Excavation NOC 100 100 100	150.1	12.67	10.28	8.11
		+23.2%	+26.8%	
6306 Sewer Construction 68 61 100	26.5	19.11	18.37	16.06
		+4.0%	+14.4%	
6319 Gas Mains or Connections Const 37 53 86	26.5	8.72	8.38	8.72
		+4.0	+3.9%	
6325 Conduit Construction 45 62 100	35.1	10.08	8.41	8.04
		+19.8%	+4.6%	
7538 Elec Light or Power Line Const 72 69 100	26.9	31.60	21.26	16.66
		+48.6%	+27.6%	
8227 Contractors Permanent Yard 83 95 100	100.3	11.67	7.95	8.28
		+46.7%	-4.0%	

OIL AND GAS CLASSIFICATIONS +43.0%
 Rate Range from +18.0% to +68.0%

Code Classification Credibility	Payroll (millions)	Rates per \$100 Payroll		
		1988 Change	1987 Change	1986
1320 Oil or Gas Lease Operators 100 100 100	286.7	7.17 +55.5%	4.61 -5.3%	4.87
6206 Oil or Gas Well Cementing 26 32 70	17.3	9.62 +18.0%	8.15 +6.9%	7.62
6216 Oil or Gas Lease Work by Contractor 100 100 100	133.8	24.19 +53.0%	15.81 +33.0%	11.89
6233 Oil or Gas Pipeline Construction 100 100 100	123.4	16.19 +68.0%	9.64 +19.5%	8.07
6235 Oil or Gas Wells Drilling/Redrilling 100 100 100	99.3	30.26 +18.0%	25.64 -6.1%	27.28
6237 Oil or Gas Wells Logging/Survey 36 34 88	20.5	15.15 +46.8%	10.32 +33.0%	7.76
7515 Oil or Gas Pipeline Operation 35 29 81	27.6	10.83 +51.8%	7.13 -4.8%	7.49

ALL OTHER CLASSIFICATIONS +17.6%
Rate Range from -7.0% to +45.0%

Code Classification Credibility	Payroll (millions)	Rates per \$100 Payroll		
		1988 Change	1987 Change	1986
1005 Coal Mining Surface 25 25 52	17.4	7.91 +6.8%	7.40 -9.8%	8.20
1165 Mining NOC Surface 34 40 100	24.0	9.27 +3.9%	8.92 +0.7%	8.86
4000 Sand or Gravel Digging 32 41 78	25.0	8.57 +22.0%	7.02 -7.9%	7.62
4361 Photographers 7 11 25	14.8	2.09 +33.1%	1.57 +13.8%	1.38
4511 Analytical Chemists 16 19 56	24.5	3.87 +28.5%	3.01 +33.2%	2.26
5191 Office Machine/Appliance Install. 18 25 69	48.1	2.21 +11.6%	1.98 +15.8%	1.71
7219 Truckmen NOC 100 100 100	87.4	20.60 +18.3%	17.41 +1.8%	17.10
7222 Truckmen Oil Field Equipment 65 53 100	21.5	20.60 +18.3%	17.41 +1.8%	17.10
7380 Drivers, Chauffeurs, & Helpers 42 54 100	60.4	10.12 +43.0%	7.08 +38.8%	5.10
7382 Bus or Taxicab Companies 34 30 100	19.0	10.87 -7.0%	11.68 +38.9%	8.41
7390 Beer or Ale Dealers 24 42 96	12.9	17.58 +43.0%	12.30 +39.0%	8.85
7405 Aircraft Scheduled Flying Crew 26 22 53	25.9	3.97 -7.0%	4.26 -42.1%	7.36
7414 Aircraft Ground Crew 44 95 100	118.7	4.52 +12.7%	4.01 +3.6%	3.87
7421 Aircraft Transportation of Employees 34 29 156	13.4	10.86 -7.0%	11.67 -11.0%	13.11

ALL OTHER CLASSIFICATIONS Continued

7422 Aircraft Air Taxi Flying Crew 61 44 100	35.4	17.60	18.92	16.31	-7.0%	+16.0%
7431 Aircraft Commuter Flying Crew 26 30 62	15.2	11.78	8.24	14.23	+43.0%	-42.1%
7502 Natural Gas Companies 21 23 80	18.1	7.67	6.47	4.66	+18.5	+38.8%
7520 Water Works Operation 12 18 38	11.4	5.89	4.12	3.96	+43.0%	+4.0%
7539 Elec Light & Power Co NOC 22 26 73	31.4	5.42	3.88	3.61	+39.6%	+7.4%
7540 Elec Light & Power Coops Rural 31 37 83	35.1	5.54	4.90	4.31	+13.0%	+16.4%
7580 Sewerage Disposal Plant Operation 13 23 43	15.8	4.75	3.69	3.58	+28.7	+3.0%
7600 Telephone & Telegraph Cos. 31 49 100	62.0	3.80	3.24	2.51	+17.2%	+29.1%
7605 Alarm Systems Install & Repair 10 19 54	13.5	4.41	3.57	2.72	+23.5%	+31.2%
7610 Radio & Television Stations 76 70 100	139.8	5.30	4.33	3.12	+22.4%	+38.8%
7704 Firemen 21 31 81	19.1	7.91	6.44	6.10	+22.8	+5.6%
7720 Policemen 74 74 100	90.6	6.60	6.43	6.13	+2.6%	+4.9%
8006 Grocery Stores Retail No Fresh Meats 33 45 100	31.8	7.52	8.08	7.73	-7.0%	+4.5%
8008 Clothing or Dry Goods Stores 16 31 73	68.3	1.67	1.41	1.40	+18.4%	+0.7%
8010 Hardware Stores 26 39 100	61.5	4.25	3.71	2.67	+14.5%	+9.0%
8013 Jewelry Stores 6 8 17	20.5	0.80	0.76	0.72	+5.2%	+5.6%

ALL OTHER CLASSIFICATIONS Continued

Code Classification Credibility	Payroll (millions)	Rates per \$100 Payroll		
		1988 Change	1987 Change	1986
8017 Store Risks NOC Retail 35 72 100	170.6	5.15 +32.3%	2.38 +3.5%	2.30
8018 Store Risks Wholesale 21 44 82	31.6	5.54 +32.8%	4.17 +8.0%	3.86
8033 Stores Meat Combined Grocery Retail 39 61 100	103.7	3.39 +4.6	3.24 +15.7%	2.80
8039 Department Stores Retail 12 26 60	30.0	2.55 +9.9%	2.32 +11.0%	2.09
8044 Furniture Stores 16 29 65	26.1	3.72 +10.7%	3.36 +6.0%	3.17
8046 Auto Accessories Stores Retail NOC 8 12 34	11.4	3.66 +26.6%	2.89 +26.2%	2.29
8058 Lumber Yard Store Employees 13 26 55	23.1	4.21 +42.7%	2.95 +24.4%	2.37
8107 Machinery Dealers NOC Store & Yard 46 58 100	54.4	6.93 +15.3%	6.01 +23.4%	4.87
8232 Lumber Yards All Other Employees 66 96 100	51.4	12.87 -4.9%	13.52 +39.0%	9.73
8292 Storage Warehouses General Merch. 31 58 87	35.0	5.36 -4.8%	5.63 -11.0%	6.32
8293 Storage Warehouses Furniture 46 72 100	22.8	18.64 +16.1	16.05 +19.1%	13.48
8530 Gasoline or Oil Dealers 34 39 100	33.0	9.59 +43.0%	6.71 +39.0%	4.83
8385 Bus or Taxicab Garage 15 24 49	12.7	6.21 +15.8%	5.36 +9.2%	4.91
8387 (*8380) Auto Accessories Sercv Statns 36 62 100	54.9	8.33 +32.0%	5.48 +8.1%	5.07

* Note: Codes 8387 & 8391 Discontinued. New Class Code is 8380.

ALL OTHER CLASSIFICATIONS Continued

Code Classification Credibility	Payroll (millions)	Rates per \$100 Payroll		
		1988 Change	1987 Change	1986
8391 (*8380) Auto Garages & Repair Shops 100 100 100	152.4	8.33 +2.3%	8.14 +36.6%	5.96
8393 Auto Body Repairing 16 23 60	13.6	7.41 +24.5%	5.95 +24.7%	4.77
8601 Engineers or Architects Consulting 50 77 100	198.8	2.92 +24.2	2.35 -7.1%	2.53
8606 Geophysical Exploration Seismic 32 53 100	33.3	9.22 +23.5%	7.46 +37.1%	5.44
8607 Geophysical Exploration NOC 24 27 65	21.7	6.33 +18.0%	5.36 +35.4%	3.96
8742 Salesmen, Outside Messengers 60 73 100	594.0	1.11 +27.5%	0.87 +1.1%	0.86
8748 Automobile Salesmen 13 16 40	47.1	1.57 +43.0%	1.10 -1.8%	1.12
8755 Labor Unions 13 11 29	27.5	2.09 +39.3%	1.50 -5.7%	1.59
8803 Travelling Auditors, Accountants 5 7 17	43.4	0.47 +42.4%	0.33 +13.8%	0.29
8810 Clerical Office Employees 100 100 100	2330.0	0.68 0.0%	0.68 -10.6%	0.76
8820 Attorney 14 19 46	143.2	0.54 +28.5	0.42 -10.6%	0.47
8829 Nursing Homes 26 46 100	31.1	8.57 +9.1%	7.85 +38.9%	5.65
8832 Physicians 16 27 74	191.2	0.47 -6.0%	0.50 +4.2%	0.48
8833 Hospitals Professionals 42 58 100	224.5	2.25 +42.4%	1.58 +13.7%	1.39

* Note: Codes 8387 & 8391 Discontinued. New Class Code is 8380.

ALL OTHER CLASSIFICATIONS Continued

Code Classification Credibility	Payroll (millions)	Rates per \$100 Payroll		
		1988 Change	1987 Change	1986
8835 Public Health Nursing Assns 20 36 66	39.1	3.24 +16.5%	2.78 +0.7%	2.76
8868 Colleges, Schools, Professional 36 66 100	611.9	0.66 +1.5%	0.65 0.0%	0.65
8901 Telephone or Telegraph, Office Empl 13 14 40	45.6	1.11 +2.7	1.08 +33.3%	0.81
9014 Buildings Operation by Contractor 30 54 100	48.9	6.00 +42.8%	4.20 +13.5%	3.70
9015 Buildings Operation by Owner/Lessee 36 67 100	49.5	9.78 +43.0%	6.84 +34.4%	5.09
9033 Housing Authorities 12 24 48	17.2	4.28 +22.6%	3.49 +21.1%	2.88
9040 Hospital, All Other 38 61 100	44.6	11.34 +32.0%	8.59 +37.7%	6.24
9052 Hotels 44 69 100	86.3	6.06 +18.3%	5.12 +14.3%	4.48
9058 Hotel Restaurants 39 72 100	84.6	6.82 +43.0%	4.77 +23.9%	3.85
9061 Clubs NOC 10 20 55	17.8	4.14 +28.9%	3.21 +14.3%	2.81
9063 YMCA YWCA 6 15 35	13.1	2.77 +19.3	2.32 +9.4%	2.12
9078 Commissary 88 100 100	89.4	12.40 +31.0%	9.46 +38.9%	6.81
9079 Restaurants 64 100 100	317.6	4.82 +34.6%	3.58 +25.6%	2.85
9101 Colleges or Schools All Other 39 64 100	93.6	3.62 +6.7%	3.39 +11.5%	3.04

ALL OTHER CLASSIFICATIONS Continued

Code Classification Credibility	Payroll (millions)	Rates per \$100 Payroll		
		1988 Change	1987 Change	1986
9402 Street Cleaning 20 27 70	13.4	8.80 +12.1%	7.85 +13.3%	6.93
9403 Garbage Collectors 28 38 91	16.5	9.60 -4.0%	9.99 +9.2%	9.15
9410 Municipal or State Employees 20 41 100	21.3	8.03 +10.0%	7.30 +36.2%	5.36
9519 Electrical Appliance Install/Repair 15 22 45	17.1	4.29 +13.1%	3.79 +14.5%	3.31
9586 Barber Shops, Beauty Parlors 4 11 18	19.1	1.04 +40.5%	0.74 +5.7%	0.70

Alaska State Legislature

SENATOR KEN FANNING
P.O. BOX 80929
COLLEGE, ALASKA 99708



P.O. BOX V—STATE CAPITOL
JUNEAU, ALASKA 99811
(907) 465-3880

Senate

January 18, 1988

Senator Tim Kelly, Chair
Senate Labor & Commerce Committee
Room 101, Capitol Building

Dear Tim:

Enclosed is a report which may be of help in your deliberations regarding SB 322, the Worker's Compensation bill.

Best regards,


Senator Ken Fanning

Enclosure

KF/gnt

Warren, Al ✓

JAN 11 1988

General Motors Corporation

ALFRED S. WARREN, JR.
VICE PRESIDENT

January 6, 1988

Senator Ken Fanning
Alaska State Legislature
P.O. Box V
State Capitol
Juneau, Alaska 99811

Dear Ken (or should I say Senator):

You asked for some information as to action GM has taken to control workers' compensation costs which might apply in Alaska given the current high costs of your program. We faced a similar situation in the state of Michigan (where we have almost 1/4 million employees) about ten years ago. The two-pronged approach which helped us in Michigan should work equally well in other states. We set out to identify and legislatively correct the most expensive and abusive practices in the Michigan law. At the same time, we looked internally to see what steps General Motors could take to better deal with those factors under our control.

In enacting law changes, we tried to deal with objective data rather than anecdotal information. This data came not only from the state agency and the insurance industry, but also, and most importantly in our view, from individual employers. We also engaged in extensive discussions with Labor regarding our costs and our proposed legislative solutions. It is our understanding that a similar Labor-Management group has been meeting in Alaska, and has recently developed a comprehensive legislative proposal. We have not seen the proposal, and therefore, can't comment on its substance. However, we do strongly support the concept of Labor and Management, the two groups most directly impacted by the workers' compensation system, working out a joint approach to solving system problems.

The second part of our strategy, internal improvements does not lend itself to governmental mandates. However, there is an educational role which government might consider. Those employers who have the most successful, enlightened internal programs should be encouraged to share their experience with others. In this regard, an Executive Summary of a very recent study by Michigan State University of our Lansing operations is attached. While Lansing still has room for additional improvement, this study does a good job of identifying the various kinds of programs that employers might consider in attempting to reduce their own costs.

Senator Ken Fanning
January 6, 1988
Page 2

Ken, I hope this material is helpful to you. If you have any questions or need additional information, please do not hesitate to call.

Congratulations on your new assignment. I am excited for you, and I know you will do well.

Most sincerely,

A handwritten signature in cursive script, appearing to be the initials 'AE'.

Attachment

from Al Warren

DISABILITY MANAGEMENT AND
REHABILITATION OUTCOMES:
THE BUICK-OLDSMOBILE-CADILLAC
LANSING PRODUCT TEAM REPORT
EXECUTIVE SUMMARY

Submitted by:

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Disability Management Project
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This study is part of a major research project funded in 1984 by the National Institute for Disability and Rehabilitation Research, Grant # G008435058. The study was conducted during 1985-1986, and the report completed in 1987.

ACKNOWLEDGEMENTS

The researchers would like to acknowledge the support, guidance, and cooperation of personnel from the B-O-C Lansing Product Team during the various activities of this project. Most of all this work was made possible due to the leadership, technical assistance, and unconditional support of James M. Richards, B-O-C Lansing's Manager of Personnel Services. Special thanks also go to those willing to give interviews and assist the researchers in the data-collection phase of the project: Noah Wills, Patrick Beecher, Rueben Bessonon, Derrick Miller, Marilyn Bennett, Lance Martin, Martha Blonde, Keith Wander, James Sickle of UAW Local 652, and others. We also thank Alan Strohmaier for his valuable assistance in consultations and technical review.

With respect to project design and methodology, we recognize the helpful suggestions made by the members of our advisory council: Irving Bluestone, Eugenia Carpenter, H. Allan Hunt, Peter Griswold, Michael Moore, Michele Hunt, Annette Abrams, Carl Frost, and Douglas Langham. Valuable assistance on project design was also provided by Dr. Donald Stanton, Chief of the Division of Rehabilitation Medicine at MSU's College of Osteopathic Medicine.

We are also thankful for the support of William Hinds, Director of the School of Health Education, Counseling Psychology, and Human Performance at MSU.

This study is one product of a collaborative project. We wish to recognize the contribution of Donald E. Galvin, former principal investigator for the project, who assisted in all aspects of the study.

Cynthia A. Hockett provided research assistance on this project and the report was typed by Maxine Holp and Teresa Beck.

**DISABILITY MANAGEMENT AND REHABILITATION OUTCOMES:
THE BUICK-OLDSMOBILE-CADILLAC LANSING
PRODUCT TEAM REPORT**

EXECUTIVE SUMMARY

In 1984, Michigan State University received funds from the National Institute for Disability and Rehabilitation Research to conduct a research project under the title "Disability Management and Rehabilitation: An Analysis of Programs, Costs, and Outcomes." The purpose of the project is to study the disability and rehabilitation policies of three major Michigan employers, and also to document and analyze the disability costs and outcomes of these three employers.

The present report focuses on the Lansing operations of the B-O-C Lansing Product Team of General Motors, a large, private, self-insured, and highly unionized manufacturing organization. The Lansing Product Team employs approximately 24,000 hourly and salaried workers, representing about 5 percent of GM's total U.S. workforce.

One overall objective of the study was to obtain a better understanding of this particular operation's environment and the factors which promote or preclude the return to work of the disabled worker. Another objective was to document disability-related costs to this employer. Based on the availability of workers' compensation data, a more specific research purpose was to investigate relationships among workers' demographic characteristics, treatment-related variables, and resulting outcomes.

Results have been reported on two levels: (1) a descriptive discussion of organizational factors which make up the employer's approach to disability; (2) a presentation of statistical findings based on an analysis of workers' compensation data.

Organizational Structure: The B-O-C Lansing Product Team

GM's B-O-C Group is comprised of seven business units, three of which are marketing units and four of which function as production teams that operate the major production facilities. In Michigan, B-O-C operates three production units: the B-O-C Flint Product Team, the B-O-C Detroit Product Team, and the B-O-C Lansing Product Team (to be referred to hereafter by the short title "B-O-C Lansing"). The Lansing operation (Oldsmobile Division) was first established in 1897 and is the largest and oldest continuous automobile manufacturing site in the U.S. B-O-C Lansing takes responsibility for automotive body and chassis assembly, engine parts machining and assembly, press metal operations, plastic operations, paint spraying, bumper plating, and welding operations. B-O-C Lansing also serves as headquarters for operations in Kalamazoo, Michigan; Janesville, Wisconsin; Kansas City, Missouri; Lordstown, Ohio; and Pittsburgh, Pennsylvania. The six Lansing plants maintain a workforce of approximately 20,000 hourly and 4,000 salaried workers (as of July 1987) in about 300 job classifications.

With the recent merger of the Fisher Body and Oldsmobile divisions, a restructuring of responsibility led to the introduction of the Lansing Body Assembly Group, the Lansing Fabrication Group, and the Lansing Powertrain Group. Other organizational groups at B-O-C Lansing are responsible for the development of all Oldsmobile name plate automobiles and their marketing and service; for the Buick-Reatta car line; for product, facilities and manufacturing engineering; and for product assurance and reliability. Financial and personnel support functions are also provided, from the B-O-C Human Resources Center.

B-O-C Lansing's Human Resources Structure

The human resources component of B-O-C Lansing is organizationally situated in the Human Resource Center (Personnel Department) which is headed by the Lansing Product Team General Personnel Director. The main departments of this human resource component are Organizational Development, Medical, Safety,

Industrial Relations, Labor Relations, Security, Education and Training, and Personnel Services. The Personnel Services Department, through its various units, is responsible for the employment of both salaried and hourly personnel, and for the administration of all employee benefits, including pensions and workers' compensation. The Department also has units for liaison with Metropolitan Insurance and for handling litigation connected with workers' compensation.

Labor and Management Participation

Union Representation

Most hourly B-O-C Lansing employees are represented by the United Automobile Workers, under locals 602, 652, and 1618. Some salaried employees are represented by the United Plant Guard Workers of America. In addition there is a small group of employees who work in the Oldsmobile exhibit and display area who are represented by the AFL-CIO.

There are approximately 120 union officers, paid by GM, representing the rank and file in the B-O-C Lansing workforce. The 1984 labor agreement between GM and the UAW recognizes that the employer and employees work together to enhance the quality of the product. The purpose of the agreement is to provide collective bargaining relations between management and the union at the corporate and local levels. The national agreement provides for the local parties to negotiate procedures regarding seniority, wage rates and classifications, reductions in the workforce, and recall from lay offs. The agreement also provides for the local parties to negotiate on issues of health, safety, working conditions, etc. Seniority in most cases is the determining factor in recall rights. The collective bargaining agreement at the local level does contain certain provisions for the placement of restricted workers; these provisions, however, are not fully integrated into the overall rehiring and placement process negotiated by B-O-C Lansing and the local unions.

While there is support in the national and local agreements for equal employment opportunity, including special documentation emphasizing the importance both parties give to this matter, the agreements provide for no specific program in this area. General guidelines in the agreements, however, are binding on both parties. B-O-C Lansing has an Equal Opportunity Section which is responsible for Divisional Affirmative Action and other civil rights initiatives, and for community involvement with organizations representing women's, handicapper, and veterans' organizations. The Section also provides employee counseling on civil rights concerns.

Labor Relations at B-O-C Lansing

GM's Labor Relations Unit, as its name implies, is the company's central organization for dealing with matters of management/labor relations. At B-O-C Lansing this unit operates under the Personnel Department, and includes both staff in the personnel office and labor relations representatives in the various plants. The department has the responsibility to interact with the union in all matters and to handle all grievances including those relating to health and safety.

Among its major functions, the Labor Relations Unit has the following responsibilities: (a) to negotiate and administer local labor agreements with local unions and bargaining units; (b) to negotiate with the union shop committee to administer the grievance procedure; (c) to assist, counsel, and train supervisors in applying the provisions of labor agreements; (d) to provide assistance in discipline matters, which includes advising supervisors, holding training sessions on discipline administration, reviewing disciplinary procedures, investigating indefinite suspensions, and writing discharge letters; (e) to interact with personnel managers in carrying out their duties; and (f) to assist the Medical Department in placing individuals with restrictions.

Personnel Policies and Practices

Recruitment and Training

Salaried workers are for the most part recruited from universities and colleges and through the General Motors Institute, and to a lesser degree from the ranks of GM's own hourly workers. Hourly workers for B-O-C Lansing are initially recruited through the Michigan Employment Security Commission, with an interview at B-O-C Lansing following the initial recruitment.

Training of staff at B-O-C Lansing is carried out through the Education and Training Section, which offers a variety of training courses, ranging from technical training to supervisory skills. Employees are exposed to on-the-job and formal training, and a performance appraisal process is ongoing. In addition to these provisions for training and education, GM has a program at the local level that pays employees' tuition for approved college courses and other courses offered by outside facilities. The Training Department at B-O-C Lansing coordinates programs in education and training, offering opportunities in both technical and non-technical areas.

Wages and Financial Incentives

Wages for hourly employees are established by contract between the management and unions representing these employees during collective bargaining negotiations. In 1986 the average GM worker earned about \$14 per hour, plus benefits that effectively brought total hourly compensation to an average of about \$30.

The Attendance Control Program, a joint union-management initiative which began at B-O-C Lansing in January of 1985, is a system of incentives and disincentives that may affect a worker's benefits based on his/her rate of absenteeism. Under the program, employees who have perfect attendance Monday through Friday during a given thirteen-week pay period (one quarter) receive a perfect attendance award with additional cash awards for perfect attendance over three and four quarters. On the disincentive side, a controllable absence rate of 20

percent or more for an employee leads to reductions in certain benefit payments, such as holiday pay, paid absence, allowances, and sickness and accident benefits.

For the purposes of this program, employee attendance records are evaluated jointly by union and management officials, with counseling provided by jointly appointed personnel. The national and local agreements identify attendance as a factor in determining benefit entitlement and an unwarranted absence from work is seen as a breach of contract between the employee and employer.

Work incentive programs in place at all GM facilities include the following:

- (a) a Profit Sharing Program, available to employees after one year of service;
- (b) an Employee Stock Ownership Program for which both salaried and hourly employees are eligible, allowing employees to become owners of the corporation through buying shares of GM common stock;
- (c) a bonus system for eligible salaried employees.

Disability-Related Benefit Practices and Procedures

As a large, self-insured employer, B-O-C Lansing provides disability-related benefits through two units of its Benefits Department, located at the Human Resource Center: the Workers' Compensation Unit and the Sickness and Accident Unit now administered by Metropolitan Life Insurance. Individuals are covered from the first day of disability if they are hospitalized or if there is a documented injury. If they are disabled due to personal illness then benefits start on the eighth day of disability. If an illness or injury is accepted as compensable, payments are provided under conditions applicable under Michigan's workers' compensation law.

Workers' Compensation

Work-related injuries and illnesses are referred to the Workers' Compensation Unit in three ways: (a) by the B-O-C Lansing Medical Department; (b) by Metropolitan Life Insurance; or (c) by the worker (self-referral).

Cases referred to the Workers' Compensation Unit through the insurance company, Metropolitan Life, come as a result of an employee indicating a work-related injury on the sickness and accident benefits form. Workers' compensation cases are either voluntary, when the employer accepts liability, or litigated, when the employer does not agree that the injury was work-related. Disputed cases may include both new cases and reinjury cases.

For cases determined appropriate for compensation, the benefit level is calculated based on the state's worker's compensation law. The final weekly compensation figure amounts to approximately 80 percent of the averaged after-tax wage. The weekly benefit in the State of Michigan, however, may not exceed a maximum of \$391 as of 1987. Benefits are paid and monitored by the Medical and Workers' Compensation Departments to determine if they should be extended or terminated. Payment may be made on a weekly basis or as a negotiated lump sum amount depending on the legal status of the claim.

After cases are accepted for benefits, the Medical Department and the Workers' Compensation Unit continue to monitor the individual's recovery. The cases are reviewed on a regular basis and may be referred for evaluation and/or for rehabilitation.

In the State of Michigan, workers' compensation law requires that after an employee has been out of work for 90 days, a report be filed with the Bureau of Workers' Compensation outlining rehabilitation considerations. This report is required from the employer every four months. Rehabilitation may involve initial client assessment and recommendations, work assessment, or long-term case management.

In addition to the coordination that occurs between workers' compensation and sickness and accident benefits, workers' compensation benefits are coordinated with other benefits and wages received by the employee. Social security old age benefits and/or pension benefits are coordinated under Michigan law. The amount

paid by social security old age benefits is deducted from the workers' compensation benefit, and an individual receiving pension benefits will have these offset depending on date of injury before receiving workers' compensation.

Sickness and Accident Benefits

These benefits are now administered on behalf of B-O-C Lansing by Metropolitan Life Insurance. Up until 1986, the Sickness and Accident Unit was administered internally by B-O-C Lansing. To apply for sickness and accident (S&A) benefits, an employee, or the person acting on behalf of the employee, must contact the S&A office to arrange a meeting with one of the benefits representatives.

Three types of benefits can be provided to employees who become ill or disabled as a result of any injury or sickness that is not work-related: sickness and accident benefits, extended disability benefits, or total and permanent disability benefits. Eligibility for these three benefits may be determined by the duration of the claim, evaluation of disability status, and/or length of service.

Sickness and accident benefits are reduced whenever the employee is eligible for coverage under the Michigan Workers' Disability Compensation Act. Cases that are clearly defined as work-related injuries or illnesses are transferred to the Workers' Compensation Unit. In cases that involve both the Workers' Compensation and the S&A Units, if the employee has been out for more than 14 days Workers' Compensation pays all benefits.

Specific Policies and Practices Directed toward Disability Management

B-O-C Lansing has implemented a number of programs aimed at enhancing employee health. There is, however, no specific policy providing for a unified disability management strategy. Policies in this area are presently governed by legal requirements for workers' compensation, affirmative action programs, and labor-management contractual provisions for placing restricted workers. To

date, the approach to disability has been one of individual departments providing specific services. Concern over rising health care costs and disability expenditures has stimulated a recognition of the need for comprehensive policies geared both to prevention and rehabilitation. At the end of 1985, a private consulting firm was hired to investigate cost containment strategies and to provide recommendations for the implementation of a disability management program within a systems approach. Subsequently, B-O-C Lansing has drawn together specialists from its medical, safety, ergonomic, vocational rehabilitation, and workers' compensation sections, and from UAW and plant personnel, to work with the consultant in identifying problem areas and providing strategies to address organizational needs.

Prevention and Early Intervention Programs

Preventing illness and disability at the workplace has become a major objective of most large employers including General Motors and B-O-C Lansing. In this respect, programs emphasizing safety, ergonomics, health promotion, and wellness, as well as employee relations or employee assistance programs, are often conducted by the employer. Programs aimed at reducing unnecessary absenteeism are considered important in this area as well.

Attendance Control Program

This program, intended to directly address the problem of excessive worker absenteeism, was agreed upon by GM and the UAW in their 1984 contract and implemented at the local level. The program offers monetary awards for good attendance and provides for a reduction in benefit levels as a result of excessive controlled absences. As well as offering incentives and disincentives, the program provides counseling for workers with attendance problems.

Safety and Ergonomics Programs

The Safety Department is responsible for the safety of all employees and the maintenance of a safe and healthy working environment. Industrial hygiene

and hazardous materials communication programs are two types of programs offered in the plants. Safety representatives are responsible for monitoring the environment and investigating possible breaches of safe practices. Emphasis is on educating employees as to the benefits of a safe working environment.

GM has recently instituted a program in the branch of industrial engineering called ergonomics, which involves the adaptation of production systems to the physical capabilities of workers. The B-O-C Group now has ergonomics coordinators within its industrial engineering staff, including coordinators working in individual plants. A main emphasis of the program is to coordinate ergonomic efforts as closely as possible to the plant floor, involving employees whenever possible.

Medical Services

B-O-C Lansing emphasizes the importance of general good health and quality health care through its Health Maintenance and Occupational Health Programs and plays a role both in prevention and rehabilitation through provision of direct and supportive health services. Preventive medical exams for all employees working in potentially hazardous environments are conducted along with programs on hypertension, cancer screening, and hearing conservation. Physical screening is also carried out when the employee is initially hired to identify physical characteristics that may make certain job duties or environments more or less suitable. Matching physical characteristics and job tasks, however, is not always an option, due to the need for flexibility in the manufacturing process. Floor supervisors, depending on the situation, may need to move employees to different jobs to address staffing shortages and to respond to fluctuations in the production cycle.

Ten aid stations staffed by registered nurses are located in the various plants. The stations operate through all shifts, providing on-the-job care. In cases of serious injury, workers are referred by the local aid station to the main

medical facility at HRC. After ten days the employee may decide on his/her physician of choice for further treatment.

A new physical therapy unit, staffed by a private consulting firm and jointly funded by B-O-C Lansing and the local UAW, is operational at the Human Resource Center to provide physical therapy for disabled workers. The program provides service for both personal and work-related injuries. If a worker has an industrial injury, he/she may receive physical therapy during work hours to facilitate an early and uninterrupted return to work. An employee may request physical therapy through the Medical Department or be referred to it by his/her treating physician.

The company sponsors the Bodycare health promotion program, which has been funded jointly by B-O-C Lansing and the local UAW since May, 1985. The objectives of the Bodycare program are to decrease health care costs and demonstrate union and management interest in the health of all employees. Areas of focus for the program are: (a) health risk appraisal, including blood pressure screening; and (b) health education in such areas as stress management, smoking cessation, prevention of back injuries, weight loss, nutrition, and exercise/aerobic programs. Services are provided both on-site and off-site to B-O-C Lansing employees.

The Employee Assistance Program (EAP) is another joint effort of GM and the UAW implemented at the local level. Its objective is to help employees who develop behavioral/medical problems that may affect job performance or attendance, including marital or family difficulties, financial or legal problems, and problems with substance abuse. A system for early identification, referral, and follow-up has been developed. Participation in the program is voluntary, but if help is refused and work-related problems become significant, normal disciplinary procedures go into effect. An employee may enter the program on his/her own initiative, or via the worker's supervisor, who in the event of serious work-related problems, may contact the program after consulting with the worker. Partici-

pation in the program is confidential and does not affect promotion opportunities.

Rehabilitation

B-O-C Lansing's major objectives regarding rehabilitation include: (a) assisting individuals who are injured on the job, or who become ill or disabled outside of their jobs; (b) facilitating a timely return to work; and (c) containing costs. Rehabilitation efforts at B-O-C Lansing include the appropriate management of disability by in-house vocational rehabilitation personnel, the effective use of necessary services from external vendors, and the timely administration of claims by benefit representatives. Medical, EAP and other personnel departments contribute to the rehabilitation approach adopted by B-O-C Lansing.

Vocational Rehabilitation

In 1983, in order to comply with the monitoring requirements of the Bureau of Workers' Disability Compensation, and in response to rising health care costs, individual compensation representatives in the Workers' Compensation Unit began referring disabled employees to private vocational rehabilitation firms. In January 1985, the company continued to provide for vocational rehabilitation services, but moved from a private delivery system to an in-house approach, utilizing private vendors when appropriate. Organizationally the program is housed in the Medical Department. Initially, the program focused on workers' compensation cases, but now it also serves recipients of sickness and accident benefits.

In making the move to an in-house approach, the professionals at B-O-C Lansing recognized the importance of devising an internal process to facilitate comprehensive case management for the rehabilitation of their injured employees. The goal of the program was to provide early vocational rehabilitation intervention to workers who become injured. The crucial component was a team approach utilizing workers' compensation, medical, placement, employee relations, floor supervision, and ergonomics personnel within the organization, with the rehabilitation specialist acting as coordinator of the process. A close working relation-

ship with the Bureau of Workers' Disability Compensation and with the UAW's workers' compensation representatives was also an objective of this new approach to vocational rehabilitation.

In addition to maintaining and developing the in-house program, the staff coordinated a review and evaluation of private rehabilitation providers, resulting in the selection of a small number of preferred vendors. The agencies were evaluated on specified criteria and a number of firms were selected to provide services for all appropriate referrals. The selection of rehabilitation firms was carried out in the interest of enhancing cooperation and communication among all parties, providing consistent case management, and enhancing cost management.

Early identification, along with a formalized, systematic referral procedure, was essential to the new approach taken by B-O-C Lansing. A formalized and documented system to identify and monitor the condition of the individual worker, and a computerized tracking system were developed, to monitor case status, vendor costs, and return to work outcomes on a monthly basis.

The major aims of B-O-C Lansing's in-house vocational rehabilitation program can be summarized as follows: (a) to provide optimal rehabilitation services to injured employees; (b) to reduce time off work due to disability through early identification and intervention; (c) to reduce medical and benefit costs through timely and coordinated planning; (d) to increase interdepartmental communication and cooperation (this is accomplished mainly through the team meetings); and (e) to enhance employee attitudes toward vocational rehabilitation through education and the accessibility of the team.

B-O-C Lansing has moved from a less systematic approach to rehabilitation to a more proactive stance. This has been accomplished by providing in-house vocational rehabilitation services to many of its injured/disabled workers, making a special effort to document cost savings with this new approach; implementing its physical therapy program; researching specific areas of concern for

disability management; and by investigating placement alternatives, such as transitional work programs, for those who are willing to return to work but cannot be placed immediately in regular jobs in the plants.

Conclusions Based on the Organizational Analysis

Overall there has been an increased commitment to human resources by this employer over the years. This is evidenced by the firm's efforts toward establishing quality of work life programs, profit-sharing plans for employees, improved health care and other benefits programs, and new physical and vocational rehabilitation programs to assist workers with injuries.

B-O-C Lansing continues to employ disabled persons, including their own workers who have become disabled. For example, in an effort to comply with affirmative action requirements an arrangement was developed with the State Vocational Rehabilitation Agency for the Blind and B-O-C Lansing to provide opportunities to hire and recruit individuals who are blind. Safety representatives within the plants provided training and follow-up. Up to this time, however, the company does not have in place a clearly defined formal policy for returning disabled or injured employees to limited duty. The development of such a policy may result, though, from B-O-C Lansing's current effort in the disability management area. Such a policy could provide objective criteria for placement in place of untested attitudes regarding worker capabilities.

Union and management representatives of B-O-C Lansing have recognized the need to work cooperatively for the good of all concerned. Recently, local union representatives have been involved with management in planning and developing the physical therapy unit and the wellness program, and in the development of the company's disability management project. Both parties have worked together over recent years to strengthen communication channels and eliminate the historically adversarial relationship between management and labor.

Workers' compensation costs at B-O-C Lansing have risen dramatically over the last few years. Investigation of this problem is currently under study with the assistance of an outside consultant working with local management and the UAW. With respect to the costs of disability benefits, B-O-C Lansing compares quite favorably with other GM operations in terms of short-term benefit costs. Cost containment strategies aimed at personal illness have not been as actively pursued as they have been in the workers' compensation area. One reason for this could be that there is no mandated rehabilitation provisions for this population. The fact that costs are viewed as within an acceptable range may also effect the amount of emphasis placed on cost containment.

General Motors' recent reorganization has been somewhat disruptive to B-O-C Lansing's efforts to integrate and coordinate the activities of various units. Overall, GM is like many other large companies: it operates a variety of health care, preventive, and rehabilitation programs, but these are not yet fully coordinated with each other or integrated into a comprehensive program.

B-O-C Lansing has a problem with absenteeism and lost work days due to short-term disability. To control absenteeism, the division has adopted a corporate wide, jointly administered Attendance Control Program, as outlined above. The program at B-O-C Lansing has not been evaluated by the corporation for its effectiveness, although there has been monitoring at the plant level. Less committed workers continue to have high absence rates in spite of incentives for good attendance. Reformulation of program guidelines is underway at the corporate level in an attempt to enhance the program's effectiveness.

Incentives to return disabled workers to work historically have not been clearly understood by the different layers of management and union representation at B-O-C Lansing. Efforts to remediate this lack of knowledge and understanding are underway so that return to work is recognized as being in the best interests of all parties. Emphasis is currently being placed on educating managers

and employees, and heightening their awareness regarding the hidden costs that accrue by not placing restricted employees. Employees at all levels are being made aware of how the financial costs of disability are recorded and reported. B-O-C managers from top down are being trained to realize that disability costs are sometimes related to their actions and can directly affect the bottom line. Costs for disability actions need to be tied to other indicators of efficiency and productivity that determine rewards.

In addition to the problem of incentives, an employer like B-O-C Lansing encounters labor contract problems in attempting to implement a return to work policy. The placement of restricted workers, for instance, is a delicate issue when considering the union's rules on seniority and job rights. A return to work policy may be seen as a means for a worker with less seniority to "bump" into a better job or as a way of depriving other workers of their rights under the local seniority agreement. This issue has been recognized by both management and the local unions at B-O-C Lansing. Both parties recognize the limitations placed on the placement of restricted workers by the seniority guidelines and are working together to consider possible alternatives. Job security for able-bodied workers, however, remains the union's major, overriding concern in the face of recent workforce cutbacks in the auto industry nationwide.

The use of job accommodations and job rotation as strategies to place restricted workers are not well developed at B-O-C Lansing. Job classifications and seniority rights limit the utilization of job rotation as a placement strategy. Due to the fact that there are usually two or more shifts operating in the plant, accommodations are also an issue. Not only does this require joint labor-management support but supervisors on all shifts must agree to the change. Gaining support is sometimes a cumbersome process. The fact that there is no management policy concerning these two interventions results in decisions being made at an individual level, and not guided by a unifying policy.

At the macro level of analysis, two important factors have guided existing disability-related policies and programs within the Lansing operation. These are the high cost of health care and other income benefits and recent reforms of the workers' compensation system in Michigan. To stay competitive, the firm redirected its policies to ensure that profits would not be negatively impacted by the costs of maintaining manpower. The goal was to maintain a healthy and lean productive workforce without excessive and inappropriate costs for medical and workers' compensation benefits.

More recently, vocational rehabilitation has been seen as a measure that can lead to cost savings. The emphasis on cost containment, a closer enforcement of rehabilitation referrals by the Rehabilitation Division of the Workers' Compensation Bureau, and a humanistic approach adopted by management interacted together and led to B-O-C Lansing's increasing use of vocational rehabilitation services.

Conclusions Based on the Statistical Analysis

The statistical part of the study involved an analysis of selected cost and outcome data gathered from the employer's workers' compensation case files. Four samples of 50 cases each were selected randomly from the company's list of 1985-86 active cases. The membership of the samples varied based on rehabilitation and return to work, as follows:

- Sample 1: Workers who received rehabilitation and returned to work.
- Sample 2: Workers who received rehabilitation and did not return to work.
- Sample 3: Workers who did not receive rehabilitation and returned to work.
- Sample 4: Workers who did not receive rehabilitation and did not return to work.

A fifth sample of 50 cases was added to the study at a later date. Sample 5 consisted of workers whose cases were coordinated by an in-house rehabilitation specialist and who returned to work.

Data collected from the files included information on: demographic charac-

teristics; health/disability status; job-related characteristics; treatment, services, or benefits received; and costs associated with benefits paid. The statistical analysis of the data was aimed at answering the following major questions: (a) With regard to the return-to-work outcome, were there particular employee or job-related characteristics that seemed to be associated with the fact that a worker returned to work and with the length of time it took a worker to return? (b) The professional literature supports the assumption that the sooner an ill or injured employee receives rehabilitation, the sooner he/she returns to work. Did this assumption hold for this employer? (c) Was the provision of rehabilitation cost-effective for this employer? In addition to seeking answers to these questions, the researchers also examined the data for notable trends in other areas. (Note: The relationships between variables pointed out in the following were found to be statistically significant, unless stated otherwise.)

Employee and Job-Related Characteristics and Return to Work

It was found that workers who returned to work, in comparison to those who did not:

- had higher seniority on average (15.55 years, in comparison to 12.02 years);
- had a higher average level of education;
- tended to be younger (40.5 years old);
- had fewer serious injuries;
- tended to have higher wages;
- tended to be married.

Also, the degree of wage replacement was found to be an important factor with regard to the return to work outcome, although this relationship did not quite reach statistical significance. A substantial difference between wages and workers' compensation benefits tended to lead to a return to work, presumably because of the economic incentive.

With regard to gender, there was a slightly higher number of males than females in the return-to-work group.

Time to Rehabilitation and Return to Work

The time lapse between the occurrence of an injury/illness and referral to rehabilitation services was found to be an important factor with regard to return to work. The shorter this time lapse, the more likely the worker was to return to work.

The Cost-Effectiveness of Rehabilitation

Timely referral to rehabilitation was found to lead to more favorable outcomes on the return-to-work variable; those workers who returned to work, in turn, were found, as expected, to cost the company less when compared to the entire sample of 200 cases. Only 44 percent of the cases in the total sample cost less than \$19,000 in workers' compensation benefits per case, while 70 percent of the cases in the return-to-work group cost \$19,000 or less.

The cost benefit of rehabilitation is illustrated more directly by the following: Of those workers who received rehabilitation and then returned to work, over 50 percent of the cases cost \$499 or less, and 32 percent fell in the \$500-\$1500 range.

Other Notable Trends Emerging from the Data

Age: The majority of injured workers in this study were between 30-39 years old.

Rehabilitation Strategies: Case management by an outside vendor was the most frequent type of rehabilitation received by workers in the samples. Independent medical evaluations were not consistently conducted and work tolerance/hardening training was very unlikely to be prescribed. With the implementation of the in-house program, however, case management strategies were coordinated to include independent medicals and work tolerance training when appropriate.

Return to Work: Through initiatives such as the in-house rehabilitation

approach and the emphasis on supervisory education, progress has been made by the company in returning injured workers to work. Eighty-five percent of workers who returned to work, however, were reassigned to different jobs in the various plants, showing that through the period covered by the study little attention had been given to modifying jobs to suit disabled workers.

Types of Injuries Sustained by Female Workers: A change has been observed in the types of injuries occurring in the female worker population. The data indicate that a large number of those who receive rehabilitation and return to work are, in addition to males with back/neck musculoskeletal injuries, females with upper extremity injuries. The number of females sustaining upper extremity injuries may be influenced by the large percentage of females hired in the 1984/1985 period. Physical requirements of particular jobs, machinery used, and body type may contribute to incidence rates when the job match is inappropriate. At B-O-C Lansing, as in most industries, there is a need to reconsider job and tool design as it relates to individual differences, particularly with regard to the female worker. It is also necessary to balance these concerns with the company's work needs and opportunities.

Recommendations

These recommendations are to be seen essentially as suggestions or overall guidelines for implementation, as applicable, according to the specific needs and objectives of B-O-C Lansing.

1. A more comprehensive and cohesive program for disability management should be developed by the Lansing operation. Besides focusing on return to work, the program should cover both the management of short-term and extended disability cases; policies for recruiting, hiring, and accommodating new disabled workers; and efforts to prevent the occurrence or aggravation of illnesses and injuries. Such a program would require full cooperation and organizational cohesive-

ness among the various programs and units/divisions, from those involved with health and prevention to those involved with rehabilitation. Endorsement for the program would need to be obtained from top level management and the UAW at both the local and international level. This support should be clearly communicated at all levels of the operation.

2. B-O-C Lansing could benefit from investigating further the feasibility of adopting a disability cost management program entailing four steps: (a) creating a disability management committee to oversee benefits administration; (b) conducting automated audits of disability claims, and monitoring cases when a worker is off work for more than seven days; (c) considering evaluating and strengthening the local contract language to provide placement procedures for disabled workers; (d) improving the acquisition and use of information by managers via coordinated reporting utilizing a computerized data base.

A disability management committee could be responsible for developing a consistent and clearly communicated disability management policy for the various departments administering disability benefits and related programs, and also for regularly reviewing its design and trends in claims. The committee would also act as the final decision making body on controversial and/or denied claims. Perhaps its most important function would be to assign responsibility to one individual for coordinating disability management-related programs and policies.

3. Improving management information could assist in heightening awareness of the costs associated with disability. Several different types of reports are recommended to keep management well informed. These include incidence, cost, and outcome reports at the plant level and the overall Lansing operations level.

4. A careful examination of trends in the incidence and costs of cases using extended disability benefits is also recommended. Depending on the results of such an investigation, improving and adding rehabilitation benefits for these

cases could prove to be most cost-effective in the near future. Greater involvement in monitoring incidence and cost data by financial staff would also strengthen the link and enhance communication between plant and financial personnel.

5. The researchers also recommend routine in-house evaluations of programs like the Attendance Control Program and other intervention programs to improve the working of these programs and to ensure that the programs' outcomes correspond with their goals.

6. The increased use of performance evaluations is recommended for workers who have problems with discipline and absenteeism, to plan for specific interventions and allow for follow-up. Information included in such evaluations would also be useful to supervisors in dealing with such workers, to union representatives responsible for informing workers of contract provisions, and to personnel staff in charge of such programs as the Employee Assistance Program. The researchers recognize the tracking problems inherent in this approach due to the frequent movement of employees within the plants. A system that would allow input by supervisors and follow-up by program staff could facilitate intervention if an employee was consistently identified through this system as experiencing problems.

7. The adoption of a clearly defined ergonomics policy and program, supporting the use of job accommodations, is recommended to assist in the placement of restricted workers. Ergonomic specialists in the plant could also provide support to supervision when accommodations are necessary and assist in the identification of potential job design problems. Job redesign and job rotation at the local collective bargaining level could also provide more placement opportunities for restricted workers as well as reducing the potential for strain injuries due to repetitive movements.

8. With respect to the placement of restricted employees, the following recommendations are made: (a) to increase union support of such practices by

having more explicit language included in local union contracts; (b) to discuss potential resolutions of discrepancies between Local 602 and 652 contracts with respect to returning restricted workers to work; (c) to increase formal educational efforts at all levels to promote a better understanding of the needs of disabled/injured workers; (d) to establish a committee of first-line supervisors, union representatives, and placement coordinators to formulate ways of placing restricted workers by assigning them to work-teams without unnecessary disruptions of the work flow; (e) to continue the development of a job analysis bank for jobs that are suitable to workers with restrictions and have departmental commitment that these job descriptions would be updated as necessary; (f) to study the feasibility of adopting a system that identifies potential jobs in the firm based upon an assessment of job characteristics and the limitations of restricted workers; and (g) to study the possibility of providing suitable accommodations at the worksite that would be acceptable to the union, management, and employees. Such a system could serve to expedite return to work decisions and save time for those in the firm responsible for placement.

9. The researchers also recommend an effort to communicate the disability management objectives to professionals in the community involved in the return-to-work and rehabilitation processes. Involved physicians, psychologists, attorneys, rehabilitation counselors, and other service providers need to be aware of these objectives so that they do not work at cross-purposes to them.

10. The firm should continue to strengthen its endorsement of early vocational rehabilitation by maintaining an internal coordination function and by using a combination of selected vendors and in-house rehabilitation counselors to perform case management. With regard to selecting outside providers, an annual review of vendors should emphasize the need for quality and cost efficiency in service provision. Vendors should be required to specifically report how many workers were returned to work and the cost savings to the company generated by

these successful closures. It is also important to consider the vendor's access to other outside reputable service providers so that quality in service provision, job retention, and cost efficiency can be achieved. Vendors should also be required to express very clearly their position on the issue of interest representation, to ensure that their practices properly balance the interests of the individual worker and those of the employer, with emphasis placed on returning the individual worker to his/her previous position if possible. Vendors' plans and experience data should be indicative of and consistent with their stated position.

In general, we should be careful about applying the results of the present study to other sets of data or using them to make extensive predictions about the characteristics of workers who return to work. The results are limited by the characteristics of the samples used in the study and reflect specific conditions existing within a particular employing organization at a particular point in time. The study's findings do not provide a complete and clear picture of the costs issue, a fact which itself indicates, perhaps, that there are no simple or easy answers to cost containment problems and that employers must continually struggle with the complicated task of combining high productivity and profits with a commitment to human resources. The best solutions are most likely to be those that are not aimed narrowly at cost containment but which are tailored to the specific requirement of a firm's organizational and human resource environment and to the level of endorsement of the rehabilitation philosophy by corporate leaders.

HOUSE LABOR AND COMMERCE COMMITTEE

ALASKA STATE LEGISLATURE

P.O. BOX V, JUNEAU 99811

(907) 465-3892



MARK

November 30, 1987

John George, Director
Division of Insurance - DCED
P.O. Box D (MS0800)
Juneau, Alaska 99811

Dear Mr. George:

The civility of the November 12 public hearing on the Division of Insurance and workers' compensation appears to have confused you. I am told, as a result of that hearing, that you believe my questions and criticism's of the Division have been satisfied and that I am now in support of your agenda.

That is not the case, and I'm writing to set the record straight. Specifically:

1. It is apparent by the Divisions' own records and through testimony offered at Thursday's hearing, that you are not in possession of sufficient data to justify approval of the recent rate increase for workers' compensation premiums. Therefore, I request that you notify me in writing by the end of this week what procedures need to be set in motion to disapprove the rate increase and to hold licensed insurers to rates no higher than what was approved in 1986.

2. I simply don't buy the Division's argument that lack of legal assistance from the Department of Law has prevented you from effectively policing the insurance industry. It is apparent to even a casual observer that the Division does not pursue consumer complaints or alleged violations of insurance statutes with any degree of sincerity or commitment. When a fox is in the henhouse, you don't sit on your butt doing nothing because you're out of ammunition. There is always kicking, gouging and screaming.

3. I oppose the Division's reorganization plan, as presented to our Committee. The plan does not meet legislative intent, nor does it provide for adequate consumer protection - the primary function of the Division.

4. During Thursday's hearing, the House Labor and Commerce Committee asked the Division to provide several pieces of backup information and documentation on several issues that were raised. I have received none of the requested information at this time and now I renew my request for same.

5. I would suggest in the future that you do not confuse lack of overt hostility or even simple rudeness with an endorsement of your personal policies. I remain convinced that the Division does an abysmal job of regulating the industry in Alaska and that we can no longer afford to take it in the shorts while some insurance companies laugh all the way to the bank.

I do wish to thank you and Don Koch again for your participation in the hearings. I for one learned much and your presence was very helpful. I am eager to follow up on the various ideas we discussed to help your Division better do its work.

Please feel free to contact me if you have any further questions or if I've failed to make my position clear.

Sincerely,

A handwritten signature in cursive script that reads "Dave Donley". The signature is written in dark ink and is positioned above the typed name and title.

Representative Dave Donley, Chair
House Labor and Commerce Committee

cc: Governor Steve Cowper
Commissioner Tony Smith
Members, House Labor and Commerce Committee



Official Business

Alaska State Legislature

Pouch V
State Capitol
Juneau, Alaska 99811

MEMO

To: Senate Labor and Commerce Committee Members
House Labor and Commerce Committee Members

From: Sen. Tim Kelly
Chair, Senate Labor & Commerce Committee *TK*
Rep. Dave Donley
Chair, House Labor & Commerce Committee *DB*

re: Report by the Joint Management/Labor
Task Force on Workers' Compensation.

December 14, 1987

On Friday, December 18, at 10:00 a.m. in the first floor conference room of the Legislative Information Office, the Joint Management/Labor Task Force on Workers' Compensation will make a presentation to a joint meeting of the Senate and House Labor and Commerce Committees.

Their presentation will highlight proposed changes contained in their newly drafted legislation pertaining to the Workers' Compensation program.

All members are urged to attend as this important issue will be discussed in Labor and Commerce Committee meetings very early in the upcoming session.

HOUSE LABOR AND COMMERCE COMMITTEE

ALASKA STATE LEGISLATURE

P.O. BOX V, JUNEAU 99811

(907) 465-3892



September 25, 1987

M E M O R A N D U M

To: Chief Clerk's Office

From: Representative Dave Donley, Chair
House Labor and Commerce Committee

Re: Interim Meeting Schedule

Below is a tentative schedule for House Labor and Commerce hearings over the interim. The dates, places and agendas are subject to change if needed.

1. Friday, October 9, (Fairbanks):
(1:45 to 6:00 p.m.) - Social ills associated with chronic unemployment. (We have also scheduled the meeting room in Fairbanks for Saturday, October 10, if needed, although we anticipate being done by Friday at five).
2. Thursday, October 29 (Anchorage):
(All day) SMALL BUSINESS CONFERENCE
(9:00 a.m. to Noon) - Overview from various state agencies of programs to promote, support or advocate for small business.
(1:30 to 5:00 p.m.) - Take public testimony from the small business community about what they would like to see the legislature do next session to aid small business in Alaska.
3. Friday, October 30 (Anchorage):
(All day) - Continuation of SMALL BUSINESS CONFERENCE
(9:00 To Noon) - Continue public testimony, including any testimony on HB 202 - Corporation Code.
(1:30 to 5:00 p.m.) - Continue public testimony, specifically on workers' compensation issues as they effect small business in Alaska.
4. Thursday, November 12 (Anchorage):
(9:00 a.m. to Noon) - Overview of the Division of Insurance.
(1:30 to 5:00 p.m.) - Overview of Worker's Compensation in Alaska, take testimony, and review any proposed legislation.

5. Friday, November 13 (Anchorage):
(All day) - TORT REFORM - Take public testimony, review tort & insurance reform measures currently in the L & C Committee, and any proposed legislation.
(Tele-conference to Fairbanks, Juneau, and Mat-su 1:30 to 5:00 p.m.)

6. Wednesday, December 9 (Anchorage):
(10:00 a.m. to Noon - 1:30 to 5:00 p.m.)
Charitable Gaming in Alaska and markup HB 299 in preparation for next session.

Please call me or Ginger at 561-7629 if you have any questions or need additional information.

Mary A. Pierce
Insurance and Risk Management
Consulting Services

O.K.
check w/ Mark

July 21, 1987

Senator Kelly
3111 "C" Street
Suite 545
Anchorage, AK 99503

Dear Senator Kelly:

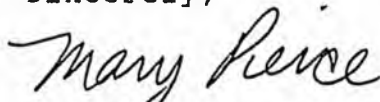
I would like to invite you to join us in a meeting of a joint labor and management task force on Workers' Compensation. This group, consisting of five labor members and five employer representatives, is attempting to arrive at solutions and a legislative remedy to the workers' compensation cost crisis.

We have already met to define issues and establish a plan for the 1988 legislative session as well as ones to follow. This is a highly complex issue which will not effectively be resolved quickly.

We are asking you as the Senator chairing Labor and Commerce to join us on August 11th at 7:30 a.m. at the Teamsters office, 4300 Boniface Parkway, to advise you of our goals and immediate plans. Representative Donnelly has also been invited to attend.

Labor and management are committed to join together to resolve these problems. We hope that you will join our effort with your support. Please call me as Co-Chair of the task force at 276-0147 if this meeting schedule is unacceptable or if you have any questions.

Sincerely,



Mary Pierce

MP/lks

KOYUKON DEVELOPMENT CORPORATION, INC.
BOX 102240
ANCHORAGE, ALASKA 99510
Phone: (907) 277-0787

MARK
Answer

July 22, 1987

Honorable Tim Kelly, Chairman
Senate Labor Committee
P. O. Box 21-0001
Anchorage, AK 99521

Dear Senator Kelly:

Koyukon Development Corporation is an organization representing sixteen Interior communities on issues relating to jobs and economic development.

We are in the process of expanding our jobs information program and have been concerned about implementation of last year's local hire statute requiring documentation of "zones of under-employment."

I am writing to inquire if your committee has monitored implementation of the law and what, if any, thoughts you have on the documentation process.

My initial talks with the Department of Labor suggests that documentation of unemployment and chronic under employment has not been intensified or retooled to assure designation of local hire preference areas will survive possible legal challenges.

I am interested in your views on this subject at your earliest convenience.

Sincerely,


Jeffrey R. Richardson
Executive Director

COILetter

NATIONAL
CONFERENCE OF INSURANCE LEGISLATORS

P.O. Box 217, Brookfield, WI 53005 Phone: (414) 782-6669

A national association of state legislators committed to insurance legislation and regulation in the public interest.

MARIL

July 6, 1987

COIL's September Seminar Program Is Shaping Up; Reservations are Coming In.

Programs on claim evaluations, data recovery, Washington issues, medical malpractice and auto issues are being finalized by COIL staff for the September 9-11 seminar in Newport, RI. Preceded by another Griffith Foundation orientation program on Sep. 8 and 9, reservations are rapidly approaching capacity.

Following the Griffith presentation on Wednesday morning, COIL committees meet on Wednesday afternoon, with the Executive Committee from 3:00 to 5:00 and a welcoming reception at 6:30. General sessions are from 9:00 to 2:00 on Thursday and 9:00 to 12:00 on Friday. A New England clambake is scheduled for Thursday night.

NAIC Frets Over McCarran, Solvency, Data Reporting, Exams

NAIC held one of its typically large and typically successful meetings in Chicago late last month. Meetings and conversation related often to issues of federal intervention and repeal of McCarran-Ferguson, although Commissioners showed concern over a position on repeal without alternatives. Health care issues attracted large crowds as the NAIC moved on model legislation in long-term health care, Medicare supplement and coordination of benefits. Continued improvement in NAIC data capture shows the organization moving toward quarterly reports.

In Washington, the House Gets Its Version of McCarran Repeal

A House bill repealing McCarran-Ferguson anti-trust exemptions for the insurance industry has been introduced by Rep. Don Edwards, CA, and six others. Whereas the Metzenbaum bill in the Senate provides a few safe harbors for joint activity, the House version is straight repeal, although Edwards says he would preserve state regulation and taxation. Among the sponsors are three powerful committee chairmen — Peter Rodino, NJ, Claude Pepper, FL, and John LaFalce, NY . . . Catastrophic illness insurance for Medicare beneficiaries has passed out of one House committee, with some differences over deductibles and prescription drugs still to be worked out. The bill does not include long-term care, which is the subject of an NAIC model and will be introduced in the Senate this summer by Sen. George Mitchell, ME . . . Uniform minimum standards for guaranty fund regulation have been urged by Rep. James J. Florio, NJ, who said his investigation of the Mission Insurance problem led to his concern over the viability of state guaranty funds.

Sen. Ernest Hollings, SC, chair of Senate Commerce, predicts a dual federal-state regulatory system in two or three years . . . Two Governors, Clinton of Arkansas and Thompson of Illinois, told the NAIC last week they favored continued state insurance regulation and opposed McCarran-Ferguson repeal. Clinton noted the Baldwin-United workout would never have been accomplished under strict anti-trust rules . . . A new unisex insurance rate bill has been introduced in the House with 90 co-sponsors and the Senate with ten.

Scorecards on Tort Reform Legislation Are Being Recorded

National Association of Independent Insurers (NAII) reports 2,822 bills dealing with the tort system have been introduced in 49 states in 1987 and that bills enacted in 22 states have produced 156 tort reform laws . . . General Accounting Office study on medical malpractice recommends a variety of state actions to change the tort system; also a more aggressive move against incompetent physicians . . . And the American Tort Reform Association, a business coalition, reports "dramatic gains" in civil justice reforms over the past year in 33 states.

Two New Studies On AIDS Support Voluntary Testing, Downplay Costs

SRI Research Center in Lincoln, NE, reports a national survey of heads of households shows 80 percent favor voluntary, confidential testing in an insurance application and 60 percent feel those exposed should pay a higher rate . . . A 600-page study of 2 million Blue Cross subscribers in the Philadelphia area shows AIDS patient costs, while rising on a per-patient basis, represent only a tiny fraction of the plan's total health care costs and that admissions for alcohol and drug abuse have risen much faster.

And In Other News of National Interest . . .

Insurance Committee for Arson Control, upon which COIL is represented, has joined by invitation the Federal Arson Task Force, which is preparing a report to Congress on the arson war . . . The June 10 earthquake in the Midwest shook up insurers as much as anyone, and an ad hoc industry group has increased its efforts to cope with what is considered an inevitable major happening. The subject will be on the COIL annual meeting program in Palm Springs.

In The States, Many Legislatures Are Now Winding Down

Connecticut, Florida, Nebraska, Vermont, Missouri, are some of the states that have recently adjourned, although special sessions always loom in the near distance . . . A couple of our recent reports in the welter of legislative proceedings cry for clarification. First, the St. Paul Fire & Marine denies it is withdrawing from **Florida** because of a court decision on tort reform, but simply because it can't get a profitable rate structure . . . In **Connecticut** we reported this year's bill on tort law repealed last year's denial of the joint and several liability doctrine. We are informed we were wrong, and although the situation is now complicated the bottom line is that joint and several has not been restored in the deep pocket sense but if a plaintiff cannot collect in a year or so from judgment a reallocation process is described.

A sweeping AIDS package has passed both Houses in **Illinois**, making testing mandatory for convicts and marriage licenses, and permitting quarantine for some who spread the disease. Tracing of sex partners would also be permitted . . . **New Jersey** independent agents and PIA have agreed to work jointly on state legislative issues, including banks in insurance, automobile insurance reform, tort reform and licensing changes . . . Flex rating for homeowners is provided in a **New York** bill recently passed.

Twelve tort reform measures were included in a legislative package passed by the **Kansas** legislature before adjourning . . . A **Nevada** Senate bill permits bank subsidiaries, affiliates or parent corporations to act as insurers and transact insurance . . . Flex rating has been proposed in **California** in an amendment to a licensing bill, but retroactive rates are not included . . . A **Rhode Island** bill that originally included major tort reform measures has been twice amended and has gone to the Governor as a bill regarding prejudgment interest . . . Prejudgment interest and collateral source information is permitted in an **Iowa** bill sent to the Governor in late May . . . Some modification of joint and several liability in a **Louisiana** bill passed both houses . . . Tort reform legislation is in conference committee in **Ohio**.

California department has ruled that advisory rates from national research firms such as ISO may no longer be used after Jan. 1. Insurers will be required to develop their own rates with advice from research firms only on actual loss costs . . . **Oregon** legislature has approved a House bill allowing financial institutions to be licensed as insurance agents to transact most lines including life and health . . . The state is not protected by a cap on medical malpractice in **California** when medical care is not provided a prisoner, according to an appeals court which restored a \$300,000 claim despite the \$250,000 medical cap.

A new product liability act has been passed in **New Jersey** providing a state-of-the-art defense for manufacturers and protecting food and drug producers from claims if the product has been federally approved . . . **Minnesota's** 1987 session defeated almost all of the aims of the business community, raising corporate taxes, increasing the minimum wage, passing a parental leave bill, ignoring tort reform, and adopting a controversial unemployment compensation reform bill.

A **Texas** omnibus insurance reform bill passed in special session has been signed by the Governor . . . **Alabama's** proposed cap of \$100,000 on punitive damages was amended up to \$250,000 in the closing hours of the session . . . **Montana** Supreme Court has invalidated a constitutional initiative capping noneconomic damages, due to faults in publication of the proposal . . . The **Illinois** aftermarket parts bill has been amended to favor industry positions permitting use of such parts . . . A **Missouri** bill prohibiting use of aftermarket parts died at adjournment . . . **Maine** has joined those states with compulsory auto insurance . . . A **Louisiana** House bill passed 96-0 providing authority to the Commissioner to order a pro-rate refund of a premium if excess profits are determined.

Florida's Academic Task Force created by last year's Tort Reform and Insurance Act has been told by its research team that liability insurance problems are primarily affordability problems and "the primary cause of the increase in insurance premiums over the long term is the increase in losses paid to claimants." . . . **Maryland** medical malpractice claims have dropped dramatically although the 50 percent drop may not be a trend, according to the Medical Mutual Liability Society . . . The Insurance Exchange of the Americas in Miami is coming under greater authority from the state Department and will probably see increased minimum capital requirements.

Nevada has okayed the licensing of state banks as insurers, and all thrift institutions have been amended into the bill . . . Parks and Resources department at **Michigan** State University is recommending that seesaws be removed from all city parks because of the danger of injury and liability . . . **Colorado** has revised its statutes to encourage captives and risk retention groups to locate in the state . . . **South Carolina** has a new auto insurance reform bill that requires rates as much as 25% higher for persons with bad driving records.

Ohio Department and Physicians Insurance Co. of Ohio have reached agreement over the adequacy of the medical insurers loss reserves. Capital will be immediately increased by \$4 million and premium surcharged will add another \$3 million over three years . . . **New York** appellate court has ruled insurance law in the state permits gender-based rating, in a suit brought against Metropolitan by the National Organization for Women . . . First quarter of 1987 was the best in four years for Canadian p/c companies.

A **Texas** Insurance Exchange would be created under legislation sent to the Governor . . . **Texas** Supreme Court has ruled that restaurant and bar owners can be held liable for damages caused by customers who become drunk if they know or should know it . . . In **Indiana** a court of appeals has ruled that a party host who served liquor to a man who later died in an auto accident cannot be held liable for the death.

In North Carolina civil justice reform in the medical malpractice field is not moving from committee. Also in North Carolina the Reinsurance Facility reported a \$22.6 million loss in the first three months of this year.

Workers Comp Continues To Cost More, Spawn New Legislation

Pennsylvania Governor has announced plans to overhaul the state's system to reduce a backlog of contested claims. He said the bureau has become one of the most embarrassing, inefficient workers comp systems in the U.S. under the former Governor . . . **Delaware** House bill to provide for a 150% payroll limitation has apparently died . . .

A state fund bill in **Louisiana** has been withdrawn at the request of the Governor, who had supported it . . . **Minnesota's** assigned risk plan rate level has been increased by 17.2% by the Commerce Commissioner . . . **Oklahoma** Rating Law has been amended and sent to conference committee.

One New Face Coming Up Among Commissioners

Vermont's Commissioner Thomas Menson has been named Secretary of Administration by the Governor, leaving the Banking and Insurance post open for now.

Meeting Plans and Meeting Dates Need Attention Soon

COIL's second 1987 seminar is in Newport, RI, on Sep. 9-11, with an advance orientation program by the Griffith Foundation on Sep. 8 and 9. Reservation/registration forms were sent some weeks ago, and travel plans should be sent this office as soon as possible.

The annual meeting in Palm Springs, CA, is Nov. 15-18 and should be marked on your calendar, although reservation forms have not yet been mailed.

MARK

May 15, 1987

Mrs. Al Bramstedt
Big Lake, Alaska 99652

Dear Mrs. Bramstedt:

This is in response to your request that your husband be moved to the top of the waiting list for admission to the Palmer Pioneers' Home. Your husband is currently number 7 on the Palmer Home waiting list and number 37 on the Anchorage Home waiting list.

Under the Alaska Administrative Code (2 AAC 41), a person who is a resident of the state, has been a resident for 15 years, is destitute and is physically disabled would have priority for admission to the Pioneers' Home over other applicants. Note that all four of these requirements must be met in order to qualify for priority status on the waiting lists.

There are fifty-three (53) applicants currently on the waiting list for nursing beds in the Anchorage Home. The top three on this waiting list are destitute applicants as described above.

In practice, the highest priority for admission to nursing care in the Homes goes to those current Home residents whose physical condition deteriorates to the point where they need nursing care.

In some instances, skilled nursing care has been provided in residential wings of Pioneers' Homes due to lack of vacant beds in nursing sections. This is a violation of the licensing regulations under which the Homes operate. We hope to avoid such violations in the future.

Over the past year, only four people were admitted to nursing care from Pioneers' Homes waiting lists. All the rest of the nursing care admissions were current residents of the Homes.

At this time, we have no vacant nursing care beds in any of the Pioneers' Homes.

We currently have residents in both the Anchorage Home and the Palmer Home who are in need of nursing care beds and are awaiting transfer.

Mrs. Al Dramstedt

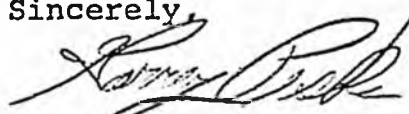
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May 15, 1987

Our current policy is to review requests for admission to nursing care from a waiting list on a case-by-case basis. If we have a vacant nursing bed and there are no current residents waiting for transfer to nursing care, we will allow admission directly to nursing care.

Please feel free to contact me if you have further questions.

Sincerely,



Garrey Peska
Commissioner

GP/lb

MARK

WORKERS' COMPENSATION RATE HISTORY
CLASSIFICATIONS WITH MORE THAN
\$10,000,000 FOR PERIOD 4/1/82 - 3/31/85
BY INDUSTRY GROUP

Prepared by: ALASKA DIVISION OF INSURANCE
November 25, 1987

MANUFACTURING CLASSIFICATIONS +10.5%
Rate Range from -14.0% to +36.0%

Code Classification Credibility	Payroll (millions)	Rates per \$100 Payroll		
		1988 Change	1987 Change	1986
2003 Bakeries 18 32 70	16.8	7.40 +33.3%	5.55 +26.7%	4.38
2104 Seafood Processors 92 100 100	176.7	8.33 -4.3%	8.70 -12.0%	9.88
2111 Canneries 14 29 69	11.7	7.79 +16.9%	6.66 +25.4%	5.31
2802 Carpentry Shop Only 25 43 100	19.6	10.49 +25.2%	8.38 +27.0%	6.60
3632 Machine Shops 19 31 86	14.3	8.52 +11.0%	7.67 +27.0%	6.04
4207 Pulp Mfg Chemical Process 9 15 65	11.0	3.82 +35.9%	2.81 -7.6%	3.04
4299 Printing 12 23 52	16.7	4.29 +27.6	3.36 +21.3%	2.77
4304 Newspaper Publishing 16 31 65	19.2	5.74 +31.9%	4.35 +11.2%	3.91
4740 Oil Refining Petroleum 24 30 81	17.3	6.15 -14.0%	7.15 0.0%	7.15