

Report To

The Mississippi Legislature



A POLICY ANALYSIS OF THE WORKERS' COMPENSATION RATES OF MISSISSIPPI'S LOGGING INDUSTRY

January 17, 1989

Workers' compensation insurance covering logging and pulpwood laborers is expensive because of the injury record of the timber harvest industry in general and the pulpwood trade specifically. Although the Joint Committee suggests four administrative and legislative options to address workers' compensation costs, there is no short-term rate reduction measure without side effects which could raise the rates of other loggers. PEER suggests a logger safety education program to control industry losses and reduce the cost of insurance.

The PEER Committee

PEER: THE MISSISSIPPI LEGISLATURE'S OVERSIGHT AGENCY

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

An extension of the Mississippi Legislature's constitutional prerogative to conduct examinations and investigations, PEER is authorized by law to review any entity, including contractors supported in whole or in part by public funds, and to address any issues which may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

As an integral part of the Legislature, PEER provides a variety of services, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, special investigations, briefings to individual legislators, testimony, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of the PEER Committee, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. The PEER Committee releases reports to the Legislature, Governor, Lieutenant Governor, and agency examined.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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OF MISSISSIPPI'S LOGGING INDUSTRY

January 17, 1989

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At its meeting of January 17, 1989, the PEER Committee authorized release of its report entitled A Policy Analysis of the Workers' Compensation Rates of Mississippi's Logging Industry.


REPRESENTATIVE J. P. COMPRETTE, CHAIRMAN

This report does not recommend increased funding or additional staff.

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A POLICY ANALYSIS OF THE WORKERS' COMPENSATION RATES OF MISSISSIPPI'S LOGGING INDUSTRY

EXECUTIVE SUMMARY

Background

According to officials in the logging and insurance industries, one of the most pressing problems faced by the raw wood products industry is the cost of workers' compensation coverage for laborers involved in the harvest of timber. Within the last year the base cost of workers' compensation insurance (or, the "manual rate") for Mississippi's pulpwood workforce has increased 33%, from \$73.03 to \$97.82.

The National Council on Compensation Insurance (NCCI), a non-profit service organization supported by member insurance companies, is the principal rating advisory bureau for workers' compensation insurance. NCCI collects and processes financial data from member insurance companies in order to determine the cost of the insurance written for each work activity classification. NCCI files the rate request with the Mississippi Insurance Department for analysis and approval. These rates are applied to payrolls to produce a base premium or manual premium. The final premium paid is dependent on other factors, including experience ratings, premium discounts, retrospective ratings, and dividends.

Mississippi has two work activity classifications for employees involved with the harvesting of raw wood products. Code 2702 (logging and lumbering, including drivers) is used mainly by the larger, more mechanized logging companies that are involved with tree-length lumbering. Code 2705 (logging and lumbering [pulpwood], including drivers), utilized exclusively in eight southern states, is used primarily in "short wood" harvest. The workers' compensation premium for Code 2705 workers is based on an artificial payroll or "upset payroll" which is calculated by multiplying the number of cords of wood produced by the labor costs associated with harvesting one cord of wood (upset rate). Although Mississippi's upset rate of \$3.40 per cord has not changed since the 1960's, increases in insurance premiums have been accomplished by increases granted in the manual rate.

Policy Options

Presented below are several administrative and legislative options that could be considered when ad-

ressing the workers' compensation cost problems faced by Mississippi's logging industry.

Combine Mississippi's two logging activity classifications into one. As was done in Alabama, all of Mississippi's logging workforce could be combined into one worker activity classification code. This classification would base its premium on actual payroll or actual contract price of the wood rather than using the upset payroll method.

Establish a new classification for highly mechanized operations. Under this option a new classification would be established for highly mechanized logging operations, whether short wood or tree-length. The rationale behind this option is this type of operation exposes the logger to much less risk and therefore should have a separate classification.

Redefine the independent contractor section of the workers' compensation statute. This option, requiring legislative action, would clearly establish all independent logging operations as independent contractors. Under this option, wood yards and mills would not be liable for any workers' compensation claims from independent logging operations.

Statutorily require workers' compensation coverage on the entire workforce harvesting all wood. This legislative option would require that every operation, regardless of size, obtain workers' compensation coverage for its workforce. This would require the private landowner to obtain coverage for himself and employees before harvesting and selling timber to a local woodyard.

Controlling Losses

An effective way to reduce workers' compensation rates is to reduce accident rates. Both the Mississippi Cooperative Extension Service and the American Pulpwood Association have safety education courses offered to various large and small logging operations throughout the state. However, no immediate benefit is gained and because participation takes workers out of the woods, most loggers choose not to attend such courses.

Recommendation

Regardless of action taken on the policy options previously presented, PEER recommends that the Insurance Department's Rating Division, the entity that oversees the NCCI rate filings, negotiate with the NCCI and the Mississippi Cooperative Extension Service to

secure a reduction in workers' compensation rates for those employees that complete an extensive safety training program. This program would work similar to programs that reduce auto insurance rates when covered young drivers complete a driver's education class. Expense for the safety education program should be split between the insurance industry and the logging operations.

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A POLICY ANALYSIS OF THE WORKERS' COMPENSATION RATES
OF MISSISSIPPI'S LOGGING INDUSTRY

INTRODUCTION

Authority

At its meeting on December 10, 1987, the PEER Committee authorized a review of workers' compensation rates of Mississippi's logging industry. The Committee acted in accordance with MISS. CODE ANN. Section 5-3-57 (1972).

Scope and Purpose

PEER reviewed the workers' compensation rates of Mississippi's logging industry, focusing on the rate setting process. In addition, PEER explored whether workers' compensation rates in the logging industry are higher in Mississippi than in surrounding states. Finally, PEER presents policy options available that address problems identified during the review.

Methodology

In conducting this review, PEER:

1. Analyzed applicable state laws governing the Workers' Compensation Commission and the Mississippi Department of Insurance;
2. Interviewed officials with the Workers' Compensation Commission and the Mississippi Insurance Department;
3. Interviewed officials with the National Council on Compensation Insurance, the American Pulpwood Association, the Mississippi Forestry Association, the Mississippi Agriculture and Forestry Experiment Station, and the Mississippi Cooperative Extension Service; two independent insurance agents that write workers' compensation insurance; several individuals engaged in logging operations; and, a former Workers' Compensation Administrative Judge;
4. Analyzed background studies, evaluations, and descriptive material related to workers' compensation in other states;
5. Reviewed the two most recent workers' compensation rate filings submitted to the Mississippi Department of Insurance;
6. Reviewed Mississippi forest harvest information provided by the Mississippi Cooperative Extension Service;
7. Reviewed compensation rate information of surrounding states provided by the National Council on Compensation Insurance; and,

8. Reviewed workers' compensation case law as provided by the Workers' Compensation Commission.

Overview

The Mississippi Cooperative Extension Service reports that Mississippi's forests are the second most valuable agricultural crop in this state, exceeded only by cotton. According to officials in the logging and insurance industry, one of the most pressing problems faced by this important industry is the cost of workers' compensation coverage for laborers involved in the harvest of timber. Within the last year the base cost of workers' compensation insurance (manual rate) for Mississippi's pulpwood workforce has increased 33%. In addition, the American Pulpwood Association estimates that, because of the inherent dangers that exist in the logging industry, 75% of all pulpwood operations cannot obtain coverage in the voluntary market and must be insured under the assigned risk plan.

PEER's review was restricted to the workers' compensation problems within the logging industry and is not a review of either the Workers' Compensation Commission or the Mississippi Insurance Department. The review does offer some policy options that could be considered when addressing these issues.

THE WORKERS' COMPENSATION SYSTEM IN MISSISSIPPI

The workers' compensation system is a legislative remedy for job-related personal injury incidents. Employers with five or more employees and not specifically exempted by statute are required to participate in the workers' compensation system. Under this system employers assume liability regardless of fault in exchange for a monetary limit on their liability. Workers agree to forfeit their right to sue for damages in a court of law, accepting instead benefits deliberately designed to provide an incentive for the employee to return to work. Workers' compensation is fully paid for by the employer, who passes the cost on in the price of products or services.

Statutory Provisions and the Workers' Compensation Commission

MISS. CODE ANN Section 71-3-1 through 71-3-119 creates and defines a system of workers' compensation that provides, without regard for fault, prompt medical services and income replacement benefits to workers injured and/or disabled by job-related injuries or diseases and, in the case of fatalities, provides indemnity benefits to surviving dependents. Before these laws were enacted, the employer was held responsible for the injury or death of an employee only if in a court of law the employer was proven negligent. To prove negligence was a slow, costly and uncertain legal process that often dealt harshly with claims made by the injured employee.

The Workers' Compensation Laws in Mississippi are administered by a three-member commission which is charged with the responsibility of effecting all provisions of the law as well as cooperating with other state and federal authorities for the prevention of injuries and occupational diseases to workers. Further, in event of injuries or occupational diseases, the commission is to coordinate rehabilitation or restoration to health and vocational opportunity of injured employees.

All controverted claims, or claims that are in dispute by either party, are processed through hearings, judicial decisions, and appellate processes. The commission's staff includes eight full-time administrative judges who travel throughout the state to conduct such hearings and make decisions on contested claims. If the employee retains an attorney, the attorney's fee--which cannot exceed 25% of the total award--will be deducted from any benefits paid to the injured worker. The non-controverted claims program receives information and sets up working files on all job-related injuries to Mississippi workers which are required to be reported under the Worker's Compensation Law.

The agency also conducts investigations when necessary and maintains records for all controverted and non-controverted cases. The Mississippi Worker's Compensation Commission is a special fund agency; the cost of its operation is met through the annual assessment of carriers and self-insured employers who are subject to the provisions of the Mississippi Worker's Compensation Law.

WORKERS' COMPENSATION AND THE INSURANCE INDUSTRY

Workers' compensation coverage is usually obtained by the employer through one of several private insurance companies that write workers' compensation policies in Mississippi. This mechanism appears fair since employers are, in large part, responsible for the safety of their workforce. However, the Mississippi Workers' Compensation Law does provide that an employer can carry his own liability upon order by the commission after demonstrating his financial ability to pay such compensation if an accident occurs.

National Council on Compensation Insurance and the Rate Setting Process

Mississippi's workforce is subdivided into 630 individual work activity classifications according to the type of work in which the employee is engaged. Each class has its own rate that reflects the risk associated with an employee's tasks. (These rates are commonly called "manual rates" simply because the collection of all individual class rates for a state are printed in a manual distributed to all insurance carriers to use when issuing policies.) A firm's payroll, in \$100 units, is then multiplied by the manual rates for its employees to derive its base workers' compensation premium.

The National Council on Compensation Insurance (NCCI) is the principal national rating advisory bureau for workers' compensation insurance. NCCI collects and processes financial data from member insurance companies in order to determine as accurately as possible the cost of the insurance written for each and every classification. Actuaries, highly trained experts in statistical analysis, study and analyze data, submitted by member insurance companies, on the kinds and numbers of accidents which have occurred to workers in each state. The current and future costs associated with these accidents are used to determine the risk associated with a particular job class in a particular industry. Further, these actuary studies take into consideration legislated benefit changes, administrative costs, claim adjustment costs, taxes, and miscellaneous other expenses to calculate the cost of providing insurance for each employee class in the state.

Once NCCI has made its price determinations, these are filed with the Mississippi Insurance Department for action. The intent of this filing process is to establish safeguards likely to result in rates which are fair, reasonable, adequate and nondiscriminatory. To assess the necessity and reasonableness of a rate request, the Mississippi Department of Insurance contracts with an independent actuarial firm which analyzes the statistical information submitted with the rate filing. Additional information needed by the state's actuary is provided by NCCI. After determining a fair rate structure that insures adequate resources to cover losses and provides for a equitable return for the insurance industry, the rates are approved. (PEER analysis of the most recent workers' compensation rate increase determined that the actuary on contract with the Insurance Department performs a rigorous analysis of all available information prior to making a recommendation to the Commissioner of Insurance.)

The manual rates are applied to payrolls to produce a base premium or manual premium. The base premium is only the starting point for determining what an individual employer will pay for workers' compensation coverage. The final premium paid is dependent on other factors, including experience ratings, premium discounts, retrospective ratings, and dividends. The most important of these factors is experience rating.

Experience rating is a mandatory program for policies with annual premiums of \$5,000 and above that compares an insured's past actual experience with the average experience. Those employers that have a good experience rating will pay a premium somewhat less than the manual rate. However, those that have experienced an above average loss experience (high number of claims) will pay a premium higher than the manual rate. This program rewards those operations that promote a safe work environment and adhere to safety rules.

Premium discounts, similar in concept to volume purchasing, apply to those operations that employ a large workforce and therefore pay substantial workers' compensation premiums. Premium discounts are appropriate to the policy premium because certain costs to the insurance carrier do not vary directly with the size of the policy.

Retrospective rating is a voluntary program that some carriers provide which the employer agrees, prior to the start of the policy, to pay for his own benefit cost. In general, the employer and carrier agree to a minimum and maximum premium chargeable regardless of actual cost. This program rewards safe organizations with lower premiums. However, if the organization has a high accident rate, the premium can be upwardly adjusted to cover the loss.

Some insurance companies make reductions to net cost of a policy after a policy has expired if the organization has had a good loss experience. They do this through a "dividend" paid to the policyholder.

The final premium that is paid by the employer is derived by applying any applicable rating factors and/or discounts to the base premium. Because premiums are paid up front on the estimated payroll figure, the employer may be required to remit additional premiums or receive a credit when, at the end of the premium year, final payroll is calculated.

Recent Rate Filings

The Mississippi Commissioner of Insurance approved two workers' compensation rate filings during 1988. The first filing was submitted by NCCI to the Insurance Department in May 1987. After analysis and negotiation, a 15.4% overall increase was approved as of April 1988. (The initial filing called for a 28.9% increase.) This filing was allowed only after Mississippi's actuary analyzed and determined a fair and equitable increase. The disputed difference was over whether interest earnings on premiums would be part of the formula in deriving rates. The Insurance Department's position that estimated earnings should be included prevailed.

In addition, an 8.0% overall premium level increase was granted effective August 1988. This increase was based solely on the effects of Senate Bill 2401 passed during the 1988 Legislative Session. The major

provision of the bill that necessitated the increase was the provision that increased the maximum weekly benefit from \$140 to 66 2/3% of the state average weekly wage (\$198).

WORKERS' COMPENSATION AND MISSISSIPPI'S LOGGING INDUSTRY

According to the Mississippi Cooperative Extension Service, Mississippi's forest industry harvested and delivered more than \$599 million worth of forest products to mills and processors in 1987. Severance tax collections were \$3,502,608.89, with 20% thereof returned to the counties where the timber was harvested.

As previously mentioned, one of the most pressing problems faced by the raw wood product industry is the cost of workers' compensation coverage for laborers involved in the harvest of timber. The following section explains the unique characteristics of this industry and how these characteristics combined with the inherent dangers involved with the harvest of raw wood to create an atmosphere that fosters such high workers' compensation rates.

Work Activity Codes and Compensation Policies

Mississippi has two work activity classifications for employees involved with the harvesting of raw wood products. These classifications represent a coding system for workers' compensation manual rates. As discussed on page 4, the rates are used to derive the base workers' compensation premium. The definition and composition of these two logging classifications are discussed below.

Code 2702: Logging and lumbering including drivers--This classification is used mainly by the larger logging companies that are involved with tree-length lumbering. These operations are typically more mechanized and, because the lumber is delivered tree-length, there is less handling therefore less risk. The logging workforce is generally on the company's payroll and therefore is under the company's direct supervision. The manual rate is based strictly on company payroll.

Code 2705: Logging and lumbering (pulpwood) including drivers--This classification, utilized exclusively in eight southern states, is used primarily in "short wood" harvest. The classification was introduced primarily because of the difficulty in obtaining adequate payroll records from the small informal pulpwood operations that are so prevalent in this industry. In the absence of payroll records, the workers' compensation premium for Code 2705 workers is based on an artificial payroll. This artificial payroll, or "upset payroll," is calculated by multiplying the number of cords of wood produced by the state's "upset rate." Mississippi's upset rate (\$3.40) is an arbitrary rate which was set in the 1960's to represent the labor cost of cutting, hauling, loading, and unloading a cord of wood. The manual rate is then applied to the artificial payroll to derive the base premium. Although Mississippi's upset rate has not changed since the 1960's, increases in insurance premiums have been accomplished by increases granted in the manual rate.

Workers' Compensation Policies--In most businesses the employer obtains and pays for the workers' compensation coverage for all employees. Most logging operations have some employees that are on company payroll and are covered under this type of conventional coverage. However, another type of

policy, called a "vendor too" policy, is prevalent in Mississippi. Under this type of policy, a company obtains coverage for the employees of independent logging operations that deliver raw wood to the lumber company. The cost of the coverage is normally deducted from the payment the company makes to the independent logging operation for the wood. It is these operations that Class Code 2705 is meant to serve. In some instances the small independent logging operations obtain coverage for their employees but this is an exception rather than a rule.

Problems Experienced by Mississippi's Logging Industry

Mississippi's logging industry is made up largely of small, independent logging operations that are involved with the harvest of "short wood" rather than tree-length logs. Rather than highly mechanized, these are typically manual operations using hazardous chain saws for felling and de-limbing the trees harvested. In addition, chain saws are used to cut the logs into six- to eight-foot lengths for transportation to the wood yards and/or mills.

The workforce is generally not under direct supervision of any company that is concerned about safety, and therefore safety rules are often not followed. Individuals are often in street or athletic shoes rather than steel toed boots and baseball caps rather than hard hats. The loggers typically use no saw chaps, safety goggles or any other safety equipment.

In addition to the dangers inherent with the industry there are other occurrences that raise the cost of workers' compensation coverage; "slippage" and non-work accident exposure.

Slippage--Slippage is a term given to the wood that is harvested and delivered to a wood yard without workers' compensation being taken out on those that harvest the wood. A company that buys wood that is harvested by individuals not covered by workers' compensation runs the risk of a lawsuit if one of the individuals hauling the wood files a workers' compensation claim against the company. However, some companies are willing to take the risk because the wood harvested without workers' compensation is less costly and therefore more profitable.

Another large segment of "slippage" wood is from local individuals that decide to harvest some timber and sell the wood to a local wood yard. The local owners of the wood yard are hesitant not to buy this wood, known as "gatewood," as this action would create bad faith. But to buy gatewood might put the owner at risk for a workers' compensation claim by the individual. In interviews with PEER, one owner testified that the insurance company carrying his workers' compensation coverage demanded that he stop buying gatewood because of the added risk. However, after so many complaints, he persuaded the company to allow his yard to purchase a very limited amount of gatewood.

Non-work Related Exposure--Because the company carrying the workers' compensation coverage does not directly supervise most of the workforce harvesting the wood, the company could be exposed to a workers' compensation claim that did not occur while the individual was harvesting timber for the company.

Workers' Compensation Rate Comparisons
With Other States

Exhibit 1, page 10, shows manual rates for work activity codes 2702 and 2705 for Mississippi and surrounding states. The exhibit is for informational purposes only and readers should not make comparisons of rates on the basis of these figures. The following are the reasons why manual rates for these activity codes cannot be directly compared.

Differences in classification codes--Mississippi has both classification codes 2702 and 2705. Alabama and Arkansas have only one code, 2702. In Alabama and Arkansas the less hazardous tree-length timber industry is pooled with the more hazardous pulpwood industry for workers' compensation rate calculation. Therefore, a comparison between Mississippi and Alabama or Arkansas manual workers' compensation rates is invalid.

Differences in upset rates for code 2705--Comparing rates of Mississippi and Louisiana or Tennessee is complicated because the states' upset rates, rates that represent the labor cost in the harvest of wood (see page 7), are different. For example, if a comparison is made between Mississippi's manual rate of \$97.82 to Louisiana's manual rate of \$48.35, it would appear Mississippi's premiums would be much higher. However, manual rates and upset rates are inversely proportional; if Louisiana had an upset rate of \$3.40 as does Mississippi, Louisiana's manual rate would be \$142.24. Likewise, if Mississippi had a \$10.00 upset rate as in Louisiana, Mississippi's manual rate would be \$33.25. (A change in the state's upset rate will not result in lower premiums for purchasers of workers' compensation insurance coverage. A change in the upset rate would make Mississippi's manual rate for Code 2705 appear to be more favorable in comparison with neighboring states.)

Differences in benefits--A basic problem in comparing any two states' workers' compensation rates is that each state's workers' compensation laws are different. States that have higher indemnity, longer payment periods, broader medical coverage, etc. will have higher workers' compensation rates. Each state's coverage would have to be analyzed and given some weight in any comparison.

Manual rates compared to premiums--A comparison of manual rates will not give a clear picture of the cost of workers' compensation coverage. As previously discussed, each company has its own experience that will significantly affect its premiums. In addition, premium discounts, retrospective rating and dividends will affect premiums.

EXHIBIT 1

MANUAL WORKERS' COMPENSATION RATES, LOGGING AND LUMBERING
FOR MISSISSIPPI AND CONTIGUOUS STATES

| <u>State</u> | <u>Logging & Lumbering Code 2702</u> | <u>L & L Pulpwood Code 2705</u> |
|--------------|--|---|
| Alabama | \$25.83 | \$ ----- |
| Arkansas | 37.07 | ----- |
| Louisiana | 42.99 | 48.36 |
| MISSISSIPPI | 32.88 | 97.82 |
| Tennessee | 25.89 | 32.50 |

SOURCE: Mississippi Department of Insurance.

NOTE: This chart is for information purposes only and numbers should not be used to compare rates. See page 8 for details.

POLICY OPTIONS

Presented below are several administrative and legislative options that could be considered when addressing the workers compensation problems faced by Mississippi's logging industry. Each option has certain advantages and disadvantages that would need to be taken into consideration.

Combine Mississippi's two classifications into one--As was done in Alabama, all of Mississippi's logging workforce could be combined into one worker activity classification code. This classification would base its premium on actual payroll or actual contract price of the wood rather than using the upset payroll method.

Under the current production based (upset payroll) system, efficient, mechanized pulpwood operations are penalized because the larger timber harvest with specialized equipment will produce more cords of pulp thus requiring more workers' compensation premium. However, under the proposed one classification option, workers in the larger, more mechanized operations would be combined into the same insurance pool for purposes of workers compensation as workers in the more hazardous pulpwood operations. Combining the lower risk operations with the higher risk pulpwood operations will likely reduce premium rates for those individuals classified under 2705 (pulpwood) and increase the premium rates for those classified under 2702.

Establish a new classification for highly mechanized operations--In conjunction with NCCI, the Mississippi Department of Insurance should determine the feasibility of establishing a new classification for mechanized logging operations. This category would include all mechanized logging operations, whether short wood or tree-length. The rationale behind this option is that modern machinery used in many pulpwood and tree-length operations can be operated without significant risk to the operator. This type of operation exposes the logger to much less risk although the production increases. Since the premium for Code 2705 is based on the number of cords of wood produced, the more mechanized pulpwood producer has a larger basis of premium despite a decrease in exposure. This new classification would result in lower workers' compensation rates for the mechanized logging operations but would cause the manual logging rates to increase.

Redefine the independent contractor section of the Workers' Compensation statute--This option, requiring legislative action, would clearly establish all independent logging operations as independent contractors. Currently, wood yards are considered the employer, for workers' compensation purposes, of all people that are involved in the harvest of the trees delivered to the wood yard. Under this option, wood yards and mills would not be liable for any workers' compensation claims from independent logging operations. However, under this option, many of the smaller pulpwood operations (less than five employees) would not obtain coverage for their employees. This would leave many workers without workers' compensation coverage if an accident should occur. In many instances the people most needing such coverage would be uncovered.

Statutorily require workers' compensation coverage on the entire workforce harvesting all wood—Currently small operations (fewer than five employees) are exempt from the workers' compensation law. Many of these people are carried on the workers' compensation policy of the wood yard or mill. However, many are not covered by any policy. This legislative option would require that every operation, regardless of size, obtain workers' compensation coverage for its workforce. This would require the private landowner to obtain coverage for himself or his hired help before harvesting and selling timber to a local woodyard. This requirement would prove unpopular to many landowners but would insure that all wood harvested would have workers' compensation coverage. According to officials with NCCI, this would reduce premiums for current policy holders because a larger premium base would be collected.

Controlling Losses

The best and arguably the only sure way to reduce workers' compensation rates is by reducing accidents. Although accidents will never be completely eliminated, a workforce that practices good safety rules, recognizes unsafe working conditions and consistently wears appropriate protection apparel will reduce the number and/or lessen the severity of accidents. During interviews with PEER, officials with logging operations and the insurance industry stated the need for a safety education program for individuals involved in the harvest of raw forest products.

Both the Mississippi Cooperative Extension Service and the American Pulpwood Association have safety education courses offered to various large and small logging operations throughout the state. However, there is no immediate benefit gained and because participation takes workers out of the woods, most loggers choose not to attend such courses.

Recommendation

Regardless of action taken on the policy options previously presented, PEER recommends that the Insurance Department's Rating Division, the organization that oversees the NCCI rate filings, negotiate with the NCCI and the Mississippi Cooperative Extension Service to secure a reduction in workers' compensation rates for those employees that complete an extensive safety training program. This program would work similar to programs that reduce auto insurance rates when covered young drivers complete a driver's education class. Expense for the program should be split between the insurance industry and the logging operations.

APPENDIX

GLOSSARY

Base premium--Workers' compensation premium before any systemic modifications such as experience modifiers, premium discounts, etc.

Final premium--The actual premium paid by an employer after all systemic modifications have been applied.

Manual rate--This is the base workers' compensation rate used by the Insurance Industry to write workers' compensation policies. The term manual rate is used because the rates are published in a bound manual and has nothing to do with manual labor.

Slippage--Wood that is harvested without workers' compensation coverage being taken out on the loggers.

Upset payroll--Derived by multiplying the upset rate by the number of cords produced, the upset payroll is multiplied by the manual workers' compensation rate to derive the base workers' compensation premium.

Upset rate--An artificial dollar figure that represents the labor cost in cutting, loading, hauling, and unloading wood. This figure is used in calculating workers' compensation premiums for employees whose work activity classification is 2705 (logging and lumbering [pulpwood]).