Illinois Worker's Compensation Reform

Policy Recommendation: Statutorily define the petitioner's burden of proof by establishing a "major contributing cause" standard for Illinois worker's compensation cases.

Though it has been two years since the 2011 changes to the Illinois Worker's Compensation Act, businesses and local units of government in Illinois still face some of the highest worker's compensation costs in the nation. The 2011 changes did little to address the low burden an injured worker must meet to establish medical causation between a proven work accident and injury, and thus establish an entitlement to benefits. The average claim in Illinois is $26,186, the highest in the country, significantly higher than neighboring states like Indiana, $22,500, Wisconsin, $21,487, and Michigan, $13,829. Additionally, 26% of all claims in Illinois include more than seven days of lost time, compared to a 16-state median of only 19% of claims. [1]

The 2011 changes did not include guarantee employer cost reductions, so the impact on businesses has been limited. An injured worker is still not required to prove that the employment was the principal cause of the injury or illness, the amount and cost of claims in Illinois is significantly higher than in neighboring states and the nation. If an employee can prove that their job was a 0.01% causative factor in injury or illness, the burden of proof has been met in the State of Illinois.

This low threshold for burden of proof has led to an avalanche of compensable claims in Illinois and it is certainly one of the reasons that Illinois is deemed to be a high cost state for workers' compensation. Change is needed if Illinois is to become competitive with states that can point to lower workers' compensation costs when competing with Illinois for jobs. Twenty-nine states have a higher causation standard than Illinois does.

Attorney General Lisa Madigan's office released a report in March of 2012 detailing how the current law has increased cost of worker's compensation for not only businesses, but also for the State itself. The flaws in the laws have allowed costs to run rampant for the State and local units of government that are already struggling with budget and debt issues. The Attorney General's office specifically recommends changing the causation standard in an effort to protect taxpayer dollars.[2]

The cost of worker's compensation is also disproportionally higher for small business across the nation. In September of 2012, for example, at a company with 1 to 99 employees, worker's compensation was 1.8% of total employee compensation, unlike a company with 500 or more employees where it was only 1% of total compensation.[3]

[1] Workers Compensation Research Institute, http://www.wcrinet.org/benchmarks/benchmarks_12/benchmarks_12_fig_1.a.html

[2] Office of the Attorney General, March 2012, http://ilchamber.org/wp-content/uploads/2012/05/AG-WC-analysis-and-recommendations-4-12.pdf

[3] Bureau of Labor Statistics, 12/11/2012 News Release, http://www.bls.gov/news.release/pdf/ecec.pdf

Public Pension Reform
Policy Position

The State of Illinois' public pension systems are the worst funded in the nation and are in dire and immediate need of reform. Central Illinois Regional Chamber Legislative Effort (CIRCLE) outlines our policy position within this document.

<u>Stabilize the System</u>

"Cram Down" does not reduce long term pension liabilities.
Simply transferring the cost of funding pensions from the State to other units of government only shifts the tax burden from one unit of government to another. A massive shift of pension costs to other government entities could increase property taxes or cause severe underfunding of our schools. Of particular concern is the idea that local governments bear the cost, but the legislature retains control of benefits such as the retirement age, annuity, COLA, employee contributions etc. School districts, universities and colleges share the responsibility of determining the benefit since salary is a determining factor, in particular the last four years of service. There is obvious room for compromise on this issue to ensure both the State and employer have "skin in the game." CIRCLE encourages the legislature to find common ground on this issue. .

Move toward Simple COLA
The compounded COLA is one of the biggest cost drivers in the current system. Tying a simple COLA to pensions that is based on the CPI-U is more financially sustainable.

Retirement age should be increased.
Retirement age should be adjusted based on the age of the beneficiary. The current system of combining age and years worked is not financially sustainable and does not take into account extended life expectancies.

Pensions should be converted to a defined benefit/contribution hybrid.
Traditional pensions are becoming increasingly rare in the private sector as employees found them financially unsustainable.. In response to these funding burdens, the proportion of workers in private defined benefit pension plans decreased from 38% to 20% between 1980 and 2008 while during that same period, the proportion of private wage/salary workers in private defines contribution pension plans increased from 8% to 31%. The State faces the same dilemma and should move towards the same actuarially sound solution. A hybrid system should be part of fixing the Tier 2 pension system to ensure new employees are treated fairly and have options in controlling their retirement.

Realign the pension ramp
The current pension ramp is financially unattainable and was unrealistic from the start. The State must undertake thorough review of the pension ramp to create an affordable and realistic time table to reach a 90% funded ratio.

Retirees must share in the cost of their healthcare.
Currently, retirees who retired from the state and university employment prior to January 1, 1998 or those who retired after that date with at least 20 years of service can enjoy healthcare for life…free of charge. As of February 2011, over 90% of nearly 82,000 state retirees did not pay anything towards their health insurance premium. Free health care at taxpayer expense is a luxury the State cannot financially provide. If needed, this could be an option to voluntarily receive reduced pension benefits or free healthcare, must like SB 1.

The State of Illinois must resolve this issue and provide reform this session. We urge the legislature to take any savings from reforming the retirement program and pay down the State's backlog of unpaid bills.

Continue Budgeting for Backlog of Unpaid Bills

Illinois has numerous problems associated with the structural deficit and inadequate cash-flow. The current financial situation and back-log of unpaid bills happened systematically over a period of time and unfortunately cannot be fixed in a single year's budget. The State will need to systematically and purposefully continue to focus on paying its bills and working toward creating a manageable cash flow.

The back-log of unpaid bills is the effect of the State delaying payments to vendors, local governments and healthcare providers and paying those bills in the following fiscal years. When done on a continuous basis, the unpaid bills become very large, or in the case of Illinois, around $7.5 billion dollars. The backlog of unpaid bills is essentially broken down into three categories since the Illinois Department of Revenue has said that it does not expect to have outstanding corporate tax refunds at the end of FY 2013:

- "Non-governmental vendors (businesses, Medicaid, private social service agencies)
- Government Entities (schools, unites of local government, etc.)
- State Medical Bills (HIRF)

The backlog of unpaid bills is hindering our state's economic recovery, hurting those who are owed money and costing our state in interest, often 1% - 2% a month. While the process of creating and implementing a long term cash management plan is made difficult due to the yearly budget process, the State must find a way to implement a long term plan to bring payments into a 45 day payment cycle and create working cash-flow.

Budgeting payment of past bills in the FY 2013 budget was a good starting point and the State should build upon this with a long term plan to deal with the back log on unpaid bills and lack of working capital.

CIRCLE Position: Budget at least $1 billion in unpaid bills in FY 2014 budget.