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Act 47 Must Curb Pittsburgh's Workers Comp Costs

The Mayor of Pittsburgh just submitted his 2006 preliminary budget to the oversight board. The budget projects a spending level of \$415.1 million and revenues of \$416.4 million. Spending is slated to decline slightly from the 2005 level while revenue is expected to rise \$3 million.

It is interesting to note some of the more egregious expenditure categories. The City is budgeting \$122 million in 2006 for "Pension, Health Benefits, and Workers' Compensation". In 2010, that line item will account for \$140 million in expenditures, a 14.7 percent jump. That rate of increase is greater than the rise in total expenditures (8.4%), operating departments (4.8%), and debt service (8.8%).

In fact, personnel costs: salaries, benefits, and workers' comp together account for 69 percent of all operating expenditures. Including the debt service that goes to pay off pension borrowing brings the true personnel cost to 75 percent of all spending. But consider this even more startling fact. Pittsburgh budgeted \$24 million for its workers' compensation costs this year. With an employee headcount of 3,700, that amounts to \$6,486 per employee. It is astonishing that the City's government, which is self-insured for compensation costs, would contemplate let alone acquiesce in such spending.

Back in 1996, the Allegheny Institute called attention to problems with the City's workers' compensation costs. An Institute report noted that the per-employee costs in 1995 (\$4,195) far surpassed per-employee costs in every other major Pennsylvania city, the City of Chicago, and the major state industries of coal and steel. The next closest cost--the Pennsylvania coal mining industry--was less than half the City's cost. Within City departments, it was found that per employee workers' compensation costs for refuse collectors in the Bureau of Environmental Services at nearly \$9,000 was much higher than those of other City departments, including police and fire. Still, most Pittsburgh departments showed workers' comp payments to be far out of line with other cities.

In 2004, a report from Industrial Medical Consultants on the City's workers' comp problem noted that part of the reason for the system's high costs came from "a work culture that views work-related disability as a benefit rather than a liability".

Further, our 2004 "Benchmark City" report looked at workers' compensation in Pittsburgh against the cities of Columbus (OH), Omaha (NE), Salt Lake (UT), and Charlotte (NC). Using claim payments made on a per-capita basis, Pittsburgh's \$60 figure (2003 numbers) far eclipsed the group average. Amazingly, Omaha, Charlotte and Salt Lake City workers' comp payments averaged a mere \$4 per resident. If Pittsburgh were operating at \$6 per capita, the City's total

workers' comp payments would fall to around \$2 million, a savings of \$22 million compared to current outlays.

Clearly, a savings of even \$15 million would significantly reduce the need for taxpayers to fund atrocious government spending. Bluntly stated, this is an area of the budget that the Act 47 team needs to focus on intently. The team should commission a thorough study of the problem that would include the creation of a tracking database of all workers' comp cases that indicates who the recipients are, the nature of their injuries, how long they have been receiving payments and whether they are retired or near retirement. In all likelihood, the study will confirm what has been known for some time. The Pittsburgh system is far too generous by allowing for double dipping. Then too, there are departments where substantial savings could be obtained by privatizing their functions. Changes in collective bargaining agreements will undoubtedly be necessary.

Whatever the team comes up with in terms of a solution, it needs to be implemented as soon as possible. It is simply unconscionable for the Act 47 administrator to gloss over this extravagant spending. Fortunately, the Act 47 team has the power and authority granted by state law to be adamant in forcing the City to correct an obviously out of control practice. Three years from now there can be no excuse for Pittsburgh's workers' comp spending to be so far out of line with other cities.

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Note: On Saturday October 22nd, the Society for the Education of Physicians and Patients (SEPP) is holding their Healthcare Summit—2005 at the Greentree Holiday Inn from 7:30 am to 4:00pm. The topic of the Summit: American Medicine in Crisis: A Time for Action. Guest speakers include Pat Toomey, President and CEO of the Club for Growth, U.S. Representative Melissa Hart, and Jane Orient, M.D., Executive Director of the Association of American Physicians and Surgeons. For more information please contact Dennis Gabos, M.D. at 412-364-2758 or visit SEPP on the web at www.sepp.net.

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