

**A Significant Reduction in Workers' Compensation
Costs Would Be a Boon to the Economy,
Creating 13,000 New Jobs**



CEFA

Center for Economic Forecasting and Analysis

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About Florida TaxWatch

Florida TaxWatch is the only statewide organization entirely devoted to protecting and promoting the political and economic freedoms of Floridians as well as the economic prosperity of our state. Since its inception in 1979, Florida TaxWatch has become widely recognized as the watchdog of citizens' hard-earned tax dollars. The nationally distributed *City and State* magazine (now *Governing* magazine) published a poll of the nation's statewide taxpayer research centers. Based on this poll, the publication cited Florida TaxWatch as one of the six most influential and respected government watchdogs and taxpayer research institutes in the nation.

In recent years, news stories about Florida TaxWatch have run in all Florida newspapers, *The Wall Street Journal*, *The New York Times* and *The Washington Post*. In addition, Florida TaxWatch has been featured on the prestigious *MacNeil/Lehrer Newshour*.

Florida TaxWatch is a private, non-profit, non-partisan research institute supported by voluntary, tax-deductible membership contributions and philanthropic foundation grants. Membership is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, corporations, professional firms, labor unions, associations, individuals and philanthropic foundations -- representing a wide spectrum of Florida's citizens.

Florida TaxWatch's empirically sound research products recommend productivity enhancements and explain statewide impact of economic and tax and spend policies and practices. Without lobbying, Florida TaxWatch has worked diligently and effectively to build government efficiency and promote responsible, cost-effective improvements that add value and benefit taxpayers. This diligence has yielded impressive results: through the years, three-fourths of TaxWatch's cost-saving recommendations have been implemented, saving taxpayers over \$6.2 billion (according to an independent assessment by Florida State University). That translates to approximately \$1,067 in added value for every Florida family.

With your help, we will continue our diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and that government agencies are more responsive and productive in the use of your hard-earned tax dollars.

The Florida TaxWatch Board of Trustees is responsible for the general direction and oversight of the research institute and safeguarding the independence of the organization's work. In his capacity as chief executive officer, the president is responsible for formulating and coordinating policies, projects, publications and selecting the professional staff. As an independent research institute and taxpayer watchdog, the research findings, conclusions and recommendations of Florida TaxWatch do not necessarily reflect the view of its members, staff or distinguished Board of Trustees.

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A Significant Reduction in Workers Compensation Costs Would Be a Boon to the Economy, Creating 13,000 New Jobs

The Governor, the Senate and the House all agree that something must be done to improve Florida's workers' compensation system and that reform is a top state fiscal priority. They do not necessarily agree on how to accomplish it. Florida's system has the seemingly unlikely combination of some of the highest premiums and lowest statutory benefits in the country. There is also a problem of limited availability of coverage. It is a bad situation for both workers and employers and that translates into trouble for Florida's economy and the well-being of all Floridians.

The House and Senate both have legislation moving through their respective chambers. While many similarities in both form and intent exist, there are many major differences as well. The Senate's proposal is based on the recommendations of the Governor's Workers' Compensation Task Force, and the Governor has made this one of his top priorities.

At the request of Lieutenant Governor Toni Jennings, Florida TaxWatch has independently assessed the economic impact of reducing workers' compensation costs to give the taxpayers and policy-makers a more accurate and comprehensive understanding of what impact that would likely have on the health and economic well-being of Florida's workers, employers and the vitality of the overall economy of the state of Florida.

The quality of a state's workers' compensation structure is of primary importance to its economy and attractiveness of its business environment. The Task Force on Tax System Modernization under Florida TaxWatch's Center for a Competitive Florida surveyed its members on their perceptions of Florida's business climate and areas for improvements. Workers' compensation was often cited as being both very important and very much in need of improvement.

Based on economic modeling performed for Florida TaxWatch by Florida State University's Center for Economic Forecasting and Analysis, a significant reduction in workers compensation costs would result in annual increases of thousands of jobs, and hundreds of million of dollars in gross state product, wages and state taxes.

Governor's Commission on Workers Compensation Reform Recommendations

The four main proposals are:

- Revision to condensability of claims and indemnity benefits
- Revision to medical services and reimbursements
- Changes in the dispute resolution process and
- Changes in the joint Underwriting Association

According to an analysis by the National Council on Compensation Insurance, Inc., the proposed changes are expected to:

- decrease Workers Compensation costs across Florida by 19% on average annually after 2003;
- result in annual savings in 2003 dollars estimated at \$570 million across the workers compensation system; and
- translate into retained savings to the business community of Florida and therefore reducing costs of business and production to these industries.

Results of the Analysis

The following graphics and figures estimate the macro economic stimulus to the Florida economy and expansion of the Florida economy's gross state product output (GSP measures the value of expansion of the output of all goods and services across the Florida economy), increases in the number of jobs, the increase in wages and the increase in tax yields across the state as a result of this savings on workers compensation expenditures of \$570 million annually through 2035.

The evaluations are based on the REMI integrated econometric-input-output modeling of dynamic – rather than static -- impacts. In summary, the impacts indicate that these changes would result in a substantial stimulus to the Florida economy over the 2003 to 2035 time frame. This stimulus the Florida economy experiences from the surge in economic activity from the increased spending resulting from the workers comp savings would generate the following increases in economic activities over that period. A representative example drawn from the year 2010 includes:

Annual Increase in 2010

Increase in Gross State Output	\$816 million
Increase in annual wages paid Florida employees	\$505 million
Increase in state taxes	\$105 million
Increase in jobs annually	13,280

Average Annual Increase over the 2003 to 2035 Period

Average Increase in Gross State Output	\$906 million
Average Increase in annual wages paid Florida employees	\$599 million
Average Increase in state taxes	\$117 million
Average Increase in jobs annually	12,904

These interactive surges produce increases in population attracted to the state, increases in job creation and earnings and ultimately Florida gross state product output reported in the attached three graphics and tables. From 2003 to 2035 the following increases result from the combined tax and revenue expenditure changes:

- Florida job creation increases by 657 in 2003 and continues to increase by 13,660 new jobs in 2035
- Florida wages increase by \$32 million in 2003 and continue to increase and add \$199 million in 2035 (2003 dollars)
- Florida state output increases by \$1,961,570 in 2003 and continues to increase to \$1,150,043,956 in 2035 (2003 dollars).
- Florida state taxes increase by \$36 million in 2003 and continue to increase and add \$139 million in 2035 (2003 dollars).

Changes in Legislation that Reduce Savings Will Reduce Economic Benefit

As the legislation moves through the process and the myriad groups affected by it provide their input, there will be many chances for the Legislature to make changes that reduce the savings in workers' comp costs. Any reduction in the savings in the final bill will reduce the economic benefits described in this report, which were based on 19% savings. Already, the Governor's proposal has been amended and the Senate bill is expected to now save 15%. The Legislature must keep an eye on reducing costs as much as possible without those savings coming at the expenses of workers.

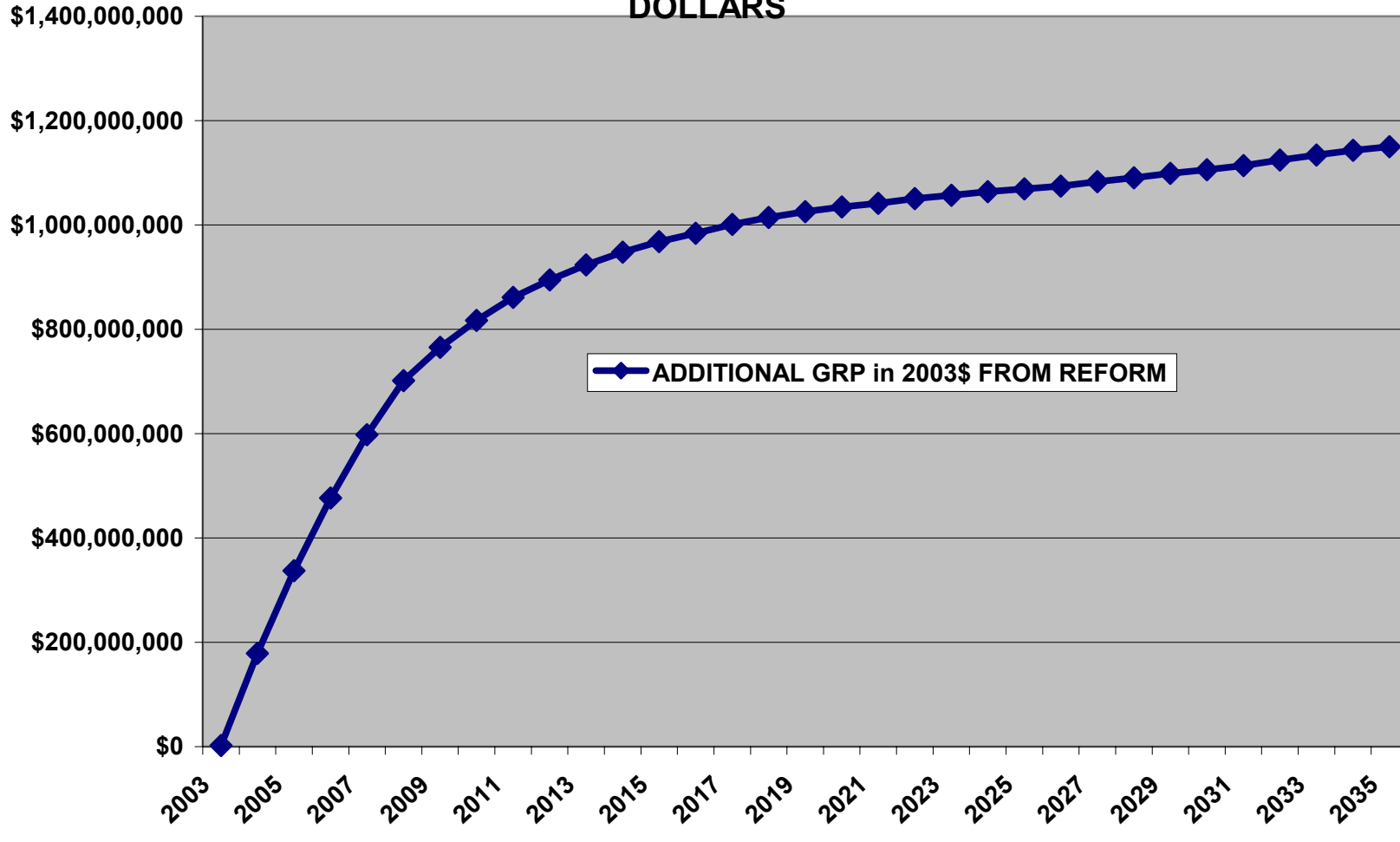
The econometric modeling and analysis in this report was done by Tim Lynch, Ph.D., Director, Center for Economic Forecasting and Analysis, Florida State University. Special acknowledgement to T.K. Wetherell, President. Additional research and writing by Kurt Wenner, Senior Research Analyst, under the direction of Keith G. Baker, Ph.D., Senior Vice President and Chief Operating Officer.

Steven L. Evans, Chairman; Dominic M. Calabro, President, Publisher and Editor.

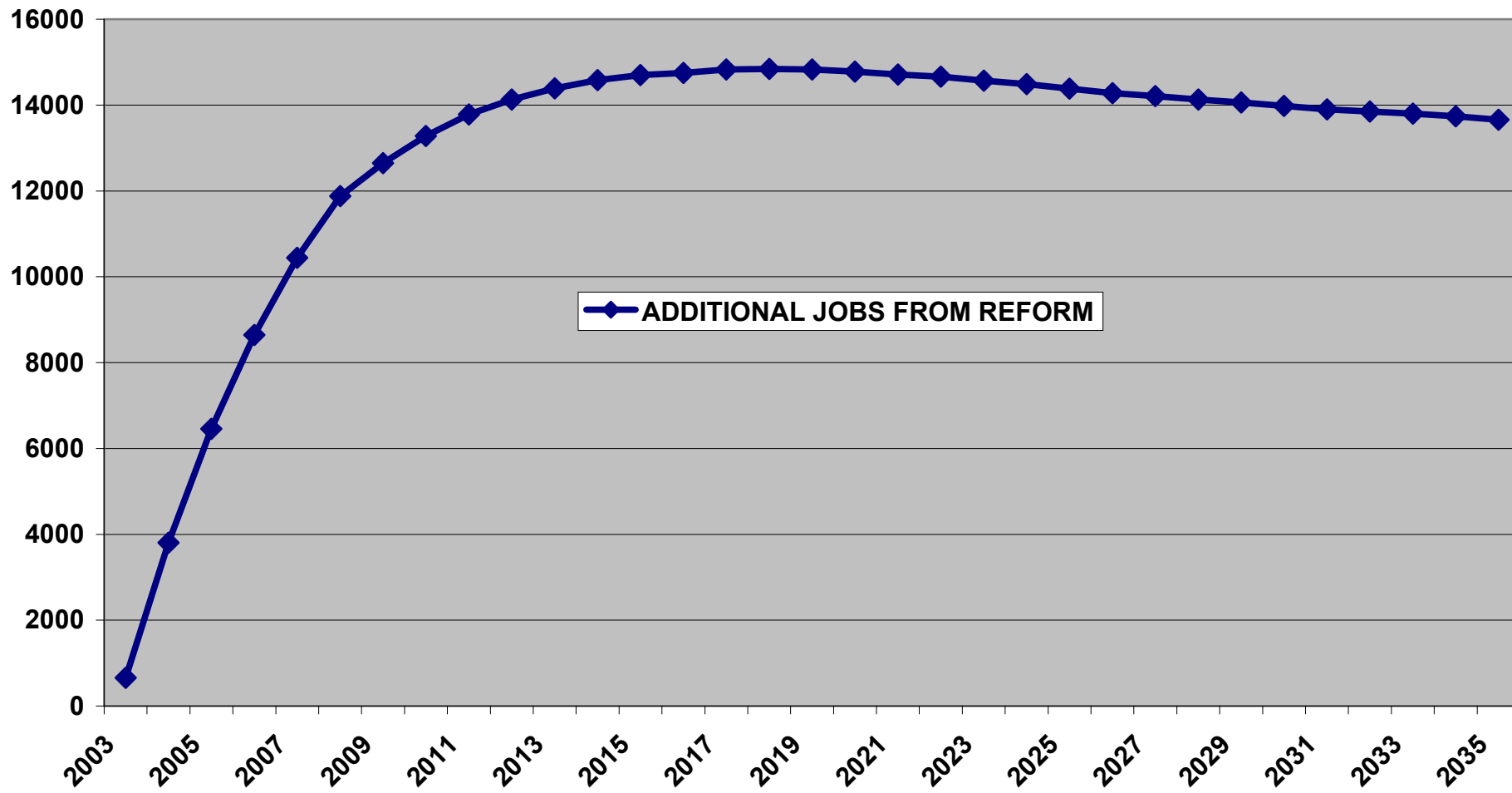
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CHANGE IN GROSS STATE PRODUCT FROM \$570 MILLION SAVINGS FROM WORKERS COMPENSATION SYSTEM REFORM IN 2003

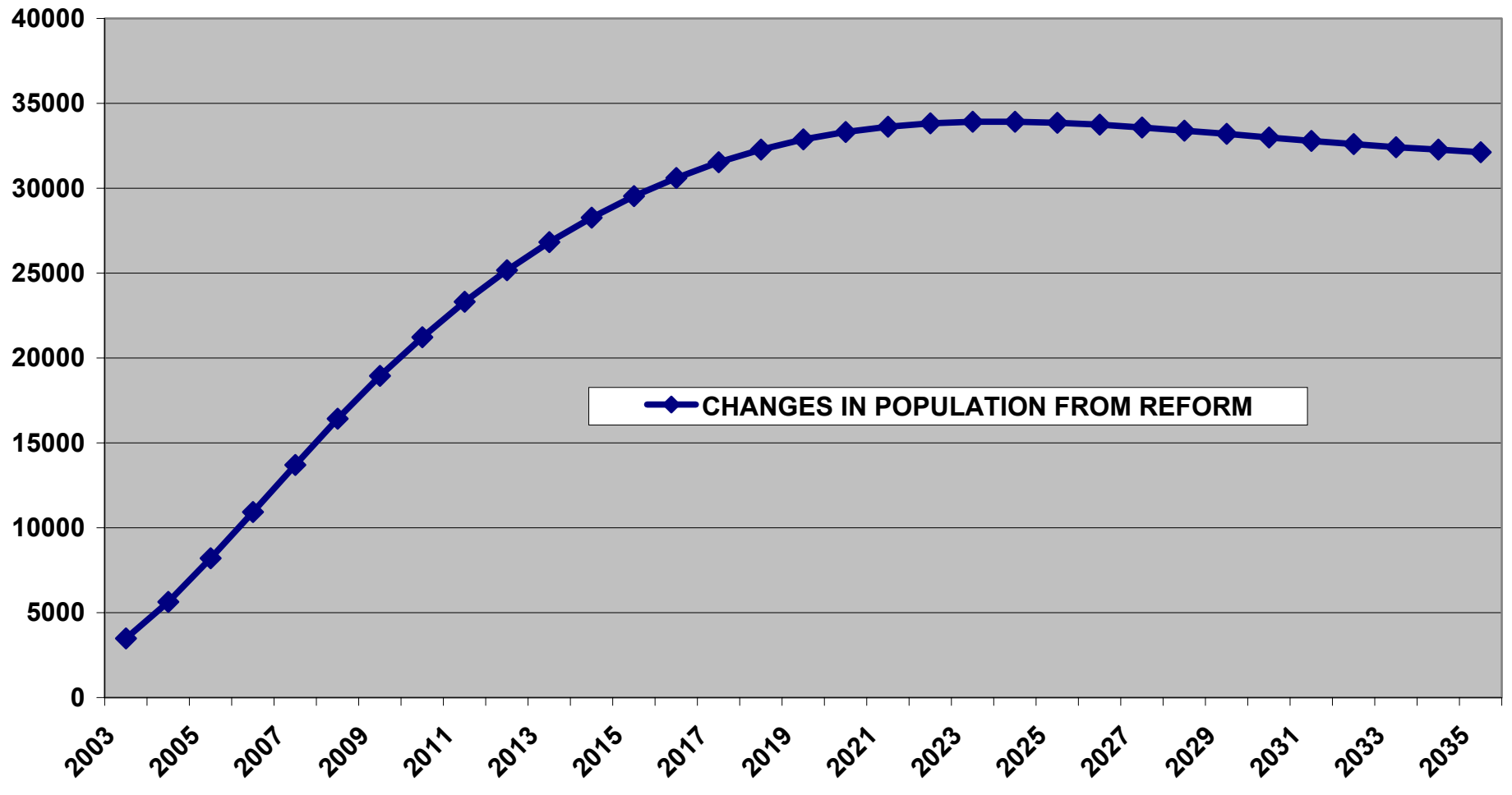
DOLLARS



CHANGE IN JOBS RESULTING FROM \$570 MILLION SAVINGS FROM WORKERS COMPENSATION SYSTEM REFORM



CHANGES IN POPULATION RESULTING FROM \$570 MILLION SAVINGS FROM WORKERS COMPENSATION SYSTEM REFORM



IMPACT OF CHANGES IN THE FLORIDA ECONOMY FROM WORKERS COMP REFORM WITH SAVINGS OF \$570 MILLION ANNUALLY

	2003	2004	2005	2006	2007	2008
Additional Gross State Product (GSP) in 2003 \$ from Reform	\$1,961,570	\$178,837,411	\$337,468,688	\$476,549,874	\$597,655,473	\$701,572,736
Changes in Jobs from Reform	657	3,803	6,456	8,644	10,440	11,880
Additional Wages in 2003 \$ from Reform	\$32,150,000	\$46,204,878	\$145,913,147	\$238,835,768	\$325,145,686	\$403,214,326
Additional State Taxes in 2003 \$ from Reform	\$36,173,019	\$48,643,938	\$61,461,563	\$73,375,650	\$83,881,900	\$92,927,781
	2009	2010	2011	2012	2013	2014
Additional Gross State Product (GSP) in 2003 \$ from Reform	\$765,208,939	\$816,905,153	\$860,991,265	\$894,711,892	\$923,315,381	\$947,851,402
Changes in Jobs from Reform	12,650	13,280	13,780	14,130	14,390	14,580
Additional Wages in 2003 \$ from Reform	\$456,241,272	\$505,263,900	\$548,997,381	\$584,451,631	\$614,725,022	\$640,811,333
Additional State Taxes in 2003 \$ from Reform	\$98,968,875	\$105,167,563	\$110,525,750	\$114,728,250	\$118,300,375	\$121,242,125
	2015	2016	2017	2018	2019	2020
Additional Gross State Product (GSP) in 2003 \$ from Reform	\$967,926,327	\$983,933,785	\$1,000,990,911	\$1,014,111,778	\$1,025,395,723	\$1,034,317,912
Changes in Jobs from Reform	14,700	14,750	14,830	14,840	14,830	14,780
Additional Wages in 2003 \$ from Reform	\$662,880,072	\$680,299,228	\$697,040,515	\$709,108,127	\$718,084,179	\$724,228,953
Additional State Taxes in 2003 \$ from Reform	\$123,763,625	\$125,759,813	\$127,650,938	\$129,226,875	\$130,487,625	\$131,538,250
	2021	2022	2023	2024	2025	2026
Additional Gross State Product (GSP) in 2003 \$ from Reform	\$1,041,665,598	\$1,050,325,370	\$1,056,754,594	\$1,063,708,653	\$1,069,219,417	\$1,074,598,973
Changes in Jobs from Reform	14,710	14,660	14,570	14,490	14,380	14,280
Additional Wages in 2003 \$ from Reform	\$727,723,307	\$731,241,901	\$732,935,402	\$734,111,290	\$733,632,077	\$732,172,832
Additional State Taxes in 2003 \$ from Reform	\$132,378,750	\$133,324,313	\$134,059,750	\$134,585,063	\$134,900,250	\$135,215,438
	2027	2028	2029	2030	2031	2032
Additional Gross State Product (GSP) in 2003 \$ from Reform	\$1,082,996,327	\$1,090,606,430	\$1,098,741,367	\$1,106,089,053	\$1,113,830,364	\$1,124,327,057
Changes in Jobs from Reform	14,210	14,130	14,060	13,980	13,900	13,850
Additional Wages in 2003 \$ from Reform	\$733,665,595	\$735,728,764	\$738,307,314	\$741,349,208	\$745,306,142	\$752,538,329
Additional State Taxes in 2003 \$ from Reform	\$135,635,688	\$135,950,875	\$136,161,000	\$136,476,188	\$136,686,313	\$137,211,625
	2033	2034	2035	Average		
Additional Gross State Product (GSP) in 2003 \$ from Reform	\$1,134,036,498	\$1,142,827,479	\$1,150,043,956	\$382,340,959		
Changes in Jobs from Reform	13,800	13,740	13,660	12,904		
Additional Wages in 2003 \$ from Reform	\$760,404,583	\$769,299,904	\$777,308,954	\$198,577,301		
Additional State Taxes in 2003 \$ from Reform	\$137,736,938	\$138,262,250	\$138,682,500	\$66,077,308		

Source: Data Sources Office of the Lt. Governor, with REMI Economy Modeling generated by the Center for Economy Forecasting and Analysis, Florida State University March 18, 2003