☞ **05hr_AC-Fo_ab0686_ pt02a**

☞

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS

2005-06
(session year)

Assembly
(Assembly, Senate or Joint)

Committee on Forestry...

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
  (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Stefanie Rose (LRB) (July 2013)

Worker's Compensation Division Response to the Assembly Forestry Committee Regarding AB-686

April 2006

Table of Contents

Part One

Worker's Compensation Division Response to the Assembly Forestry Committee
Regarding AB-686

Department of Workforce Development
Worker's Compensation Division
201 E. Washington Ave., Rm. C100
P.O. Box 7901
Madison, WI 53707-7901
Telephone: (608) 266-1340
Fax: (608) 267-0394
http://dwd.wisconsin.gov/wc
e-mail: DWDDWC@dwd.state.wi.us

Worker's Compensation Division Response to the Assembly Forestry Committee Regarding AB-686

At the Committee hearing held on January 10, 2006, AB-686 was considered. DWD opposed the bill that would allow group self-insurance for loggers on several points. A proponent of the bill suggested that DWD's objections could be overcome if, instead of the language before the Committee, the bill were modeled after the State of Michigan's group self-insurance program. DWD could not comment on that proposal, as staff had no knowledge of the Michigan law, and no party had ever presented to DWD the Michigan law as a model.

Chairman Friske asked DWD to look into the Michigan model and report back to the Committee.

In Michigan, group self-insurance is permitted for 2 or more employers in the same industry. Michigan currently has 35 groups. One group, known as Michigan Association of Timbermen Self Insurers' Fund (MATSIF) serves the forest products industry. MATSIF has about 385 member employers, of which 271 have at least some payroll related to logging.

For the overall period 1988-2006, the MATSIF logging rates were comparable to the Wisconsin rates. There was a divergence from 1996 to 2002, when Wisconsin rates were notably higher than MATSIF's. Since that time, Wisconsin rates have trended downward, and MATSIF's have trended up, such that for the most recent four years, rates have been essentially equivalent. (see attachment 1)

A major difference between MATSIF and Wisconsin, though, is that MATSIF has established a sub-category for mechanical loggers. For the period 1988 to 1995, MATSIF rates were essentially flat, with mechanical rates about 50% of manual rates. For the next five years, manual rates were flat, but mechanical rates fell by half. In the most recent six years, both rates have risen: manual by 17%, and mechanical by 27%. Still, with the greater increase in mechanical rates recently, they remain two-thirds less than manual rates.

According to Barb Bennett, Secretary-Treasurer of MATSIF, the main reason that this group has been able to offer lower rates to its members is the stringent underwriting of new accounts. Applicants are required to have an experience modification rating of 1.05 or less, and a commitment to safety.

According to data provided by the Compensation Advisory Organization of Michigan (CAOM), there were 629 policies filed in 2005 with the logging class code. Only 53 of those policies were procured in the voluntary market, with the remaining 576 in the assigned risk pool.

At this point, differences between the Michigan and Wisconsin systems require elaboration. In Wisconsin, all insurance companies must charge the same rate for payroll in a given class code, and that rate is the same whether the policy is procured in the voluntary market or the assigned risk pool. In Michigan, insurers are allowed to charge whatever rate they want for voluntary policies, but the state specifies the rate for the assigned risk policies. Michigan, like Wisconsin until the recent change, has only one class code for logging, with no separate rate for mechanical operations.

For Michigan loggers in the voluntary market, the average rate charged by insurers is $33.06/$100 of payroll. For the loggers unable to either join MATSIF or obtain coverage in the voluntary market, the assigned risk pool is their only option at $56.63/$100 of payroll. Both of these rates compare unfavorably to the current Wisconsin rate of $31.14/$100 of payroll. (see attachment 2)

Given that Wisconsin has approved the creation of a separate class code for mechanical loggers, a major reason for wanting group self-insurance has been satisfied.

If group self-insurance is still pursued, there are several topics that should be explored.

It would be reasonable to expect that Wisconsin would experience an increase in rates applied to loggers not in a group, as has occurred in Michigan. In such a case, it cannot be said that the industry as a whole is better off, but that selected employers will benefit, while others will be penalized. This likely outcome is not consistent with the proponents' view that

lower rates available through group self-insurance will bring those on the margins of the law back into the worker's compensation system. More likely, they will have additional incentive to legally avoid or illegally evade worker's compensation laws.

Additional public policy implications suggest that group self-insurance in general should not be approved. A basic tenet of the Wisconsin worker's compensation system is that injured employees should receive benefits due them, no matter what. The system in place for insured employers makes sure that benefits due are paid, even in the event of failure of the insurance company.

In the individual self-insurance program, this social compact of guaranty of benefits derives from the financial strength of the self-insurers individually and in aggregate. Failure of self-insurers, though quite rare, does occur. DWD has had to make assessments against the self-insurers for defaults, but has never had a problem collecting such assessments. The typical self-insured employer has net worth ranging from several hundred million dollars to several billion dollars.

The group self-insurance proposal, as revised orally at the committee hearing, would have the group itself solely responsible for payment of claims, with no safety net for injured workers in the event the group failed. Proponents argue that posted security combined with excess or re-insurance will suffice. Experience shows otherwise, as the value of posted security depends on the ability of the issuer to perform when called. Likewise for excess and re-insurance carriers. In fact, a major insurance company was forced into insolvency, in large part because its reinsurers failed to honor their obligations. So, for the injured workers, continuation of benefits still rests on the financial capacity of the members of the group. Proponents stated that prospective members of their group would be very small employers, with limited financial strength. If a large, sophisticated insurance company with an entire staff of risk management professionals couldn't ensure that its reinsurers would perform, how will the proposed groups?

In Michigan, there has been no failure of a self-insured group to date. Unfortunately, the same cannot be said nationwide. There are several examples of group failures, resulting in benefits to injured workers being denied or delayed. In addition, it is likely that a number of employers in the failed AIK Comp group in Kentucky will be bankrupted by the assessments exceeding $90 million. AIK Comp had a membership with diverse industries, so at least the business disruptions won't be concentrated in one industry. This proposal limits group membership to one industry. While that limit has its benefits, primarily being able to serve members by specializing in that industry, this tactic can backfire. A homogeneous group failed in Florida, because of embezzlement by the fund administrator. In that case, a large percentage of an industry was harmed.

Testimony provided to the Committee at the January 10, 2006 hearing bears some scrutiny. Mr. Francisco quoted from a recent UW Extension study that 62% of logging firms currently have no employees, whereas 20 years ago many firms had "10, 20, 30 or more employees." Mr. Francisco concludes that this is because of the high cost of worker's compensation insurance. Such a conclusion is in direct contradiction to the study. The text of the study immediately following the quote used by Mr. Francisco is: "However, capital, in the form of highly productive and efficient logging equipment, has replaced the individual on the forest floor." (see attachment 3)

Similarly, Mr. Francisco testified that "The same UW Extension report states that nearly 1 out of every four logging firms (23%) stated they would be out of business in five years and that worker's compensation insurance was one of the top five factors effecting profitability." The implication of this testimony is that worker's compensation costs are driving employers out of business. The report draws no such conclusion, and actually treats the two topics separately. As for the number of firms that expect not to be in business in five years, the report states "As was presented earlier in this report, 23% of firm owners were 55 years or older. (see attachment 4) The departure of this senior cohort is not unusual or unexpected. All business sectors are dynamic." As for factors affecting profitability, the report lists eleven factors, with worker's compensation rating 8th lowest. (see attachment 5)

The UW Extension report has very little to say about worker's compensation, other than that "...modifying rules and rates presents a credible opportunity to improve firm profitability." However, no such examples of modifications are discussed or proposed in the report. Given that 62% of logging firms report no employees, no change in worker's compensation will affect the majority of logging firms. The report continues "In addition, only firms located in southern Wisconsin identified worker's compensation as an important profitability issue." The report notes that "In southern Wisconsin, logging firms are typically chainsaw-based operations..." (see attachment 6) If Michigan's experience is a guide, group self-insurance for chainsaw-based operators in Wisconsin will provide little or no benefit, and those not in the group can expect their rates to rise dramatically.

Incorrectly, the report states that worker's compensation is one of the "...factors over which the logger has no influence." In fact, the actual rate paid by any particular employer can vary substantially from the published rates, via a mechanism known as experience modification rating (often referred to as mod factor). An employer that operates safely and incurs fewer than industry average claims receives a discount. For example, one proponent of this bill has an experience modification factor of 0.76, meaning a 24% discount for an effective rate of $23.67/$100 payroll. In addition, that is before any dividend plan, which many loggers receive from their insurer.

There are other differences between Michigan and Wisconsin law that suggest this group self-insurance proposal would not allow for rate reduction as expected by proponents. In Michigan, there are several special purpose funds. One such fund is the Logging Industry Compensation Fund (LICF), which is funded from assessments against all insurers. The LICF caps an insurer's wage-replacement payments to an injured logger to $25,000 or 104 weeks of weekly compensation, whichever is greater (Michigan statute 418.531). In a funds review committee report published in 2000, it is stated that claims for reimbursement filed with the LICF come primarily from MATSIF. The committee concluded that "...there is no existing basis to justify subsidizing part of the logging industry worker's compensation costs through the Logging Fund." MATSIF testified in support of the LICF to the committee, stating that without the LICF, rates would increase about 20%. (see attachment 7) In order to make a more fair comparison to Wisconsin, MATSIF's rates should be raised 20%. With this

adjustment, MATSIF should be charging $9.79/$100 of payroll for mechanical loggers, and $34.25/$100 of payroll for manual loggers. (see attachment 8 and attachment 8-A)

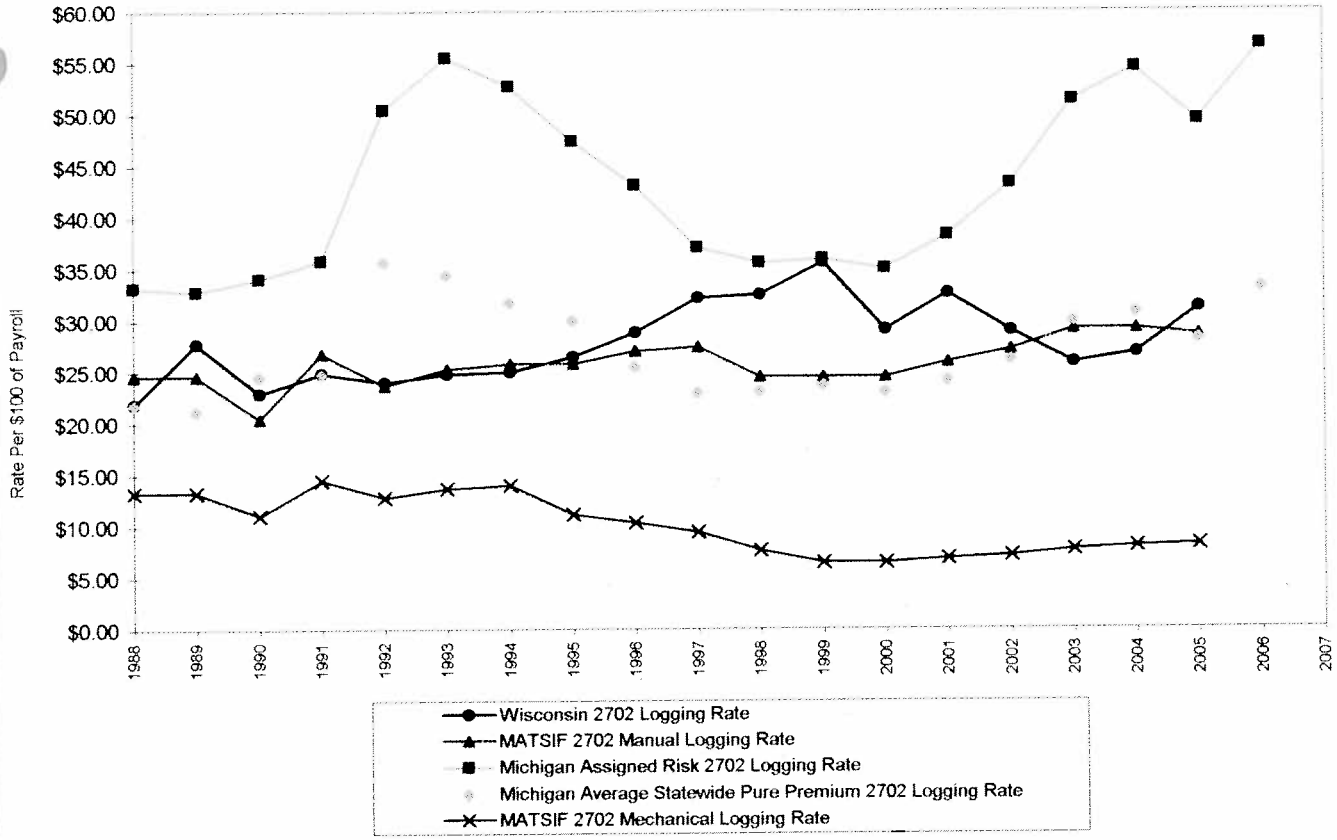
In addition to the LICF, Michigan has several other funds that pay all or portions of certain claims, regardless of industry of the injured worker, that artificially depress rates for hazardous occupations, by raising the rates for all other less hazardous occupations. Data is not available to estimate the extent that these other funds subsidize logging rates, but fund administration staff did indicate knowledge of at least several high-dollar logging claims currently being paid by these other funds, in addition to those claims paid by the LICF. Michigan funds administration staff related that another committee is currently examining the justification for various funds, with a recommendation that the LICF be abolished. Logging industry proponents continue to support the LICF, contending that Michigan rates would rise dramatically without the subsidy, making the industry uncompetitive with neighboring states, including Wisconsin.

This information leads to the theory that rate differences between Wisconsin and Michigan are due primarily to the special funds, not group self-insurance. Support for this concept is demonstrated in the MATSIF rates history, which shows a large decrease in rates not upon inception of group self-insurance, but rather eight years later, upon inception of the LICF. Additional support comes from comparison of all rates offered by MATSIF, not just the logging class code. Wisconsin rates are lower in 21 of the 31 class codes offered by MATSIF. Clearly, if group self-insurance was a large factor on rates, then most, if not all, of MATSIF's rates should be lower than Wisconsin's rates. Since the logging class code is the only rate that has a large difference compared to Wisconsin, the dominant factor must be the effect of the LICF, not group self-insurance. (see attachment 9 and attachment 9-A)

In summary, the Michigan model has resulted in substantially lowered rates for those logging employers in the self-insured group that are mechanized. Non-mechanized loggers in the group pay rates very similar to insured rates in Wisconsin. For those loggers not in the group, the few that were able to procure voluntary market coverage pay modestly more than Wisconsin rates, but the majority of loggers not in the group are in the assigned risk pool, paying 82% more than Wisconsin. If not for the subsidy effect of the LICF, most loggers in

Michigan would be paying rates well in excess of Wisconsin rates. Logging rates are relatively high because it is the most dangerous occupation (source: Bureau of Labor Statistics). Group self-insurance will not change that fact: its primary effect is to benefit some employers at the expense of others. Michigan has chosen to subsidize the logging industry through the LICF. In Wisconsin, the system of classification codes is designed so that rates applied to each occupation are correlated to the actual costs of claims incurred. DWD would not support creation of such a fund in Wisconsin, considering it poor public policy, with no justifiable reason to charge higher than normal rates to safer industries so that more hazardous industries benefit from artificially lowered rates.

Wisconsin & Michigan Worker's Compensation Rate
History For Classification Code 2702 - Logging



Year	Wisconsin 2702 Logging Rate*	MATSIF 2702 Manual Logging Rate**	Michigan Assigned Risk 2702 Logging Rate***	Michigan Average Statewide Pure Premium 2702 Logging Rate	MATSIF 2702 Mechanical Logging Rate**
1988	$ 21.88	$ 24.57	$ 33.17	$ 21.83	$ 13.29
1989	$ 27.73	$ 24.57	$ 32.82	$ 21.17	$ 13.29
1990	$ 22.92	$ 20.44	$ 34.05	$ 24.53	$ 11.06
1991	$ 24.81	$ 26.75	$ 35.77	$ 24.80	$ 14.48
1992	$ 23.95	$ 23.64	$ 50.43	$ 35.67	$ 12.80
1993	$ 24.77	$ 25.25	$ 55.46	$ 34.43	$ 13.67
1994	$ 24.95	$ 25.74	$ 52.69	$ 31.73	$ 13.94
1995	$ 26.44	$ 25.74	$ 47.39	$ 29.95	$ 11.15
1996	$ 28.77	$ 27.03	$ 43.04	$ 25.45	$ 10.31
1997	$ 32.13	$ 27.37	$ 37.02	$ 22.92	$ 9.41
1998	$ 32.47	$ 24.44	$ 35.55	$ 23.06	$ 7.57
1999	$ 35.62	$ 24.44	$ 35.89	$ 23.68	$ 6.43
2000	$ 29.04	$ 24.44	$ 35.00	$ 22.99	$ 6.43
2001	$ 32.59	$ 25.90	$ 38.16	$ 24.07	$ 6.81
2002	$ 28.92	$ 27.11	$ 43.21	$ 26.14	$ 7.13
2003	$ 25.84	$ 29.12	$ 51.27	$ 29.85	$ 7.66
2004	$ 26.75	$ 29.12	$ 54.43	$ 30.73	$ 7.97
2005	$ 31.14	$ 28.54	$ 49.29	$ 28.13	$ 8.16
2006			$ 56.63	$ 33.06	

* Wisconsin rates are effective 10/01/2005

** MATSIF rates are effective 10/01/2005

*** Michigan Assigned Risk rates are effective 01/01/2006

Attachment 1

Michigan Association of Timbermen Self Insurers' Fund			Michigan Assigned Risk Rates					
Code	Description	Rate per $100 of Payroll	Code	Description	Rate per $100 of Payroll	Percentage difference of MI Assigned Risk Rate vs. MATSIF Rate	MI Assigned Risk Rate dollar difference per $100 of payroll vs. MATSIF Rate	MATSIF Rate dollar difference per $100 of payroll vs. MI Assigned Risk Rate
0005	Farm Nursery	$ 11.89	0005	Farm Nursery	$ 4.76	-60.0%	$ (7.13)	$ 7.13
0128	Farms	$ 12.12	0128	Farms	$ 8.21	-32.3%	$ (3.91)	$ 3.91
2702	**Logging**	**$ 28.54**	**2702**	**Logging**	**$ 56.63**	**98.4%**	**$ 28.09**	**$ (28.09)**
2703	Mechanical Logging	$ 8.16	2703**	Mechanical Logging	n/a	n/a	n/a	n/a
2704	Log Truck Drivers	$ 12.64	7208*	Trucking - Local Haul	$ 13.32	5.4%	$ 0.68	$ (0.68)
2710	Sawmill	$ 18.54	2731	Sawmill	$ 9.52	-48.7%	$ (9.02)	$ 9.02
2731	Planing & Molding	$ 8.55	2731	Planing & Molding	$ 9.52	11.3%	$ 0.97	$ (0.97)
2759	Pallet Shop	$ 15.12	2759	Pallet Shop	$ 10.93	-27.7%	$ (4.19)	$ 4.19
2802	Carpentry (Shop & Drivers)	$ 10.59	2802	Carpentry (Shop & Drivers)	$ 11.63	9.8%	$ 1.04	$ (1.04)
2841	Woodenware Mfg.	$ 7.57	2841	Woodenware Mfg.	$ 6.13	-19.0%	$ (1.44)	$ 1.44
2881	Furniture Assembly	$ 4.91	2881	Furniture Assembly	$ 3.90	-20.6%	$ (1.01)	$ 1.01
2883	Furniture Mfg.	$ 11.85	2802*	Furniture Mfg.	$ 11.36	-4.1%	$ (0.49)	$ 0.49
2915	Veneer Products Mfg.	$ 13.98	2915	Veneer Products Mfg.	$ 4.99	-64.3%	$ (8.99)	$ 8.99
2916	Veneer Products Mfg. - No Veneer	$ 6.46	2915*	Veneer Products Mfg. - No Veneer	$ 4.99	-22.8%	$ (1.47)	$ 1.47
3113	Tool Mfg.	$ 2.77	3113	Tool Mfg.	$ 5.99	116.2%	$ 3.22	$ (3.22)
3365	Welding	$ 7.84	3365	Welding	$ 9.93	26.7%	$ 2.09	$ (2.09)
4000	Sand & Gravel Digging	$ 10.92	4000	Sand & Gravel Digging	$ 8.25	-24.5%	$ (2.67)	$ 2.67
5606	Executive Supervision	$ 2.59	5606	Executive Supervision	$ 3.84	48.3%	$ 1.25	$ (1.25)
5610	Cleaner - Debris Removal	$ 7.91	5610	Cleaner - Debris Removal	$ 9.32	17.8%	$ 1.41	$ (1.41)
6217	Excavation & Drivers	$ 13.57	6217	Excavation & Drivers	$ 10.20	-24.8%	$ (3.37)	$ 3.37
7210	Truckmen-Long/Local	$ 12.37	7208*	Trucking - Long Haul	$ 13.32	7.7%	$ 0.95	$ (0.95)
7380	Drivers	$ 7.21	7380	Drivers	$ 6.61	-8.3%	$ (0.60)	$ 0.60
8017	Store Retail	$ 2.15	8017	Store Retail	$ 1.83	-14.9%	$ (0.32)	$ 0.32
8018	Store Wholesale	$ 5.28	8018	Store Wholesale	$ 4.76	-9.8%	$ (0.52)	$ 0.52
8059	Light Packaging	$ 5.57	8010*	Store Hardware	$ 3.38	-39.3%	$ (2.19)	$ 2.19
8232	Lumber Yard	$ 6.21	8232	Lumber Yard	$ 6.33	1.9%	$ 0.12	$ (0.12)
8265	Iron & Steel Erection	$ 24.24	5057*	Iron & Steel Erection	$ 8.63	-64.4%	$ (15.61)	$ 15.61
8601	Timber Cruiser	$ 1.21	0108*	Country Forestry Horticultural	$ 0.97	-19.8%	$ (0.24)	$ 0.24
8742	Salespersons	$ 0.69	8742	Salespersons	$ 0.66	-4.3%	$ (0.03)	$ 0.03
8810	Clerical Office Employees	$ 0.69	8810	Clerical Office Employees	$ 0.33	-52.2%	$ (0.36)	$ 0.36
9015	Buildings Operations - Maintenance	$ 7.53	9015	Buildings Operations - Maintenance	$ 4.87	-35.3%	$ (2.66)	$ 2.66
Averages	**Rate Index (average rate)**	**$ 9.34**		**Rate Index (average rate)**	**$ 8.50**	**-8.5%**	**$ (0.88)**	**$ 0.88**

* Michigan Assigned Risk equivalent code to Michigan Association of Timbermen Self Insurers' Fund code

** Michigan Assigned Risk does not have a Mechanized Logging Code

MATSIF Premium Size	Premium Discount	Average MATSIF Rate	Average MATSIF Rate with premium discount applied	Average MI Assigned Risk Rate	difference of Average MI Assigned Risk Rate vs. MATSIF Discounted Average Rate
$0 to $5000	0%	$9.34	$9.34	$8.50	-9.0%
$5001 to $25,000	5.00%	$9.34	$8.87	$8.50	-4.2%
$25,001 to $100,000	11.50%	$9.34	$8.27	$8.50	2.8%
Over $100,000	12.50%	$9.34	$8.17	$8.50	4.0%

Attachment 2

Table 1. Distribution of harvesting systems (percent of firms) among geographic sub-region.

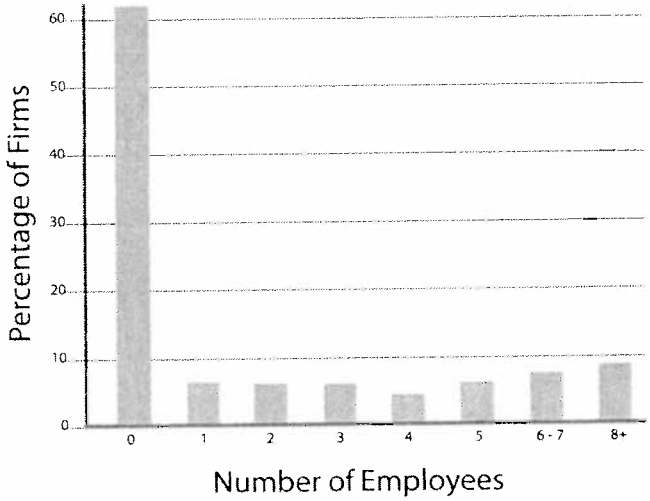
Geographic Sub-Region	Harvesting System				
	Chainsaw Based	Cut-to-Length	Feller-Buncher	Multiple Systems	Other
Southern Wisconsin	41.2	42.9	9.2	5.0	1.7
Northern Wisconsin	32.6	42.0	13.5	9.4	2.4
All Wisconsin	35.4	42.3	12.1	8.0	2.2
Michigan Upper Peninsula	37.1	32.8	22.0	6.4	1.6
Entire Region	36.0	39.1	15.4	7.4	2.0

► *Employment*

The majority of logging firms (62%) reported having no employees (Figure 6). Typically, these individuals sub-contract a portion or portions of the harvesting process to others in the logging or trucking sector. Based on anecdotal evidence, this is a substantial change in business practice compared to twenty years ago. Historically, logging was a labor-intensive activity in which firms employed many workers. Crews of 10, 20, 30, or more employees were common. However, capital, in the form of highly productive and efficient logging equipment, has replaced the individual worker on the forest floor. Of those businesses that did employ workers, the average number of full- and part-time employees per firm was 4.1 and 0.7, respectively. As illustrated in Figure 6, relatively few of the region's logging firms (8%) employ eight or more full-time workers. The largest firm reported having 34 full-time employees.

For firms with employees, 88% of respondents indicated that reliable workers were hard to find. Eighty-seven percent also said skilled workers were hard to find. These results were consistent across the three sub-regions, however, assessments of worker turnover differed by sub-region.[3] More respondents from southern Wisconsin (26%) agreed that worker turnover was high. In contrast, 18% of the firms with employees in northern Wisconsin firms and 21% of the firms with employees in Michigan's Upper Peninsula reported that they agreed with the statement. Collectively, these responses suggest that labor availability and, to a lesser extent, labor retention, may be problematic in the regional logging sector.

Figure 6. **Distribution of the regional logging sector by the number of firm employees.**



[3] The null hypothesis that sub-regions responded similarly to the statement "worker turner is high in my company" was rejected using a chi-squared test with $\chi^2 = 17.2$, df = 8, and a p-value = 0.0285.

Nearly three-quarters (74%) of "departing" firms cited economic pressures as the reason for their exit. Thus, the financial difficulties discussed in the previous section appear to be real, with potentially real consequences. The regional logging sector is financially pinched between increasing timber harvesting costs (including stumpage) and mill prices that have not kept pace in the short term. This financial environment is not economically sustainable for a sizable component of the sector. The balance of departing firms - 26% - reported they were exiting because of the imminent retirement of the firm owner or health-related issues. As was presented earlier in this report, 23% of firm owners were 55 years or older. The departure of this senior cohort is not unusual or unexpected. All business sectors are dynamic. However, the general financial condition of the logging industry, coupled with a graying of firm owners and apparent limited recruitment, raises concerns about the future structure and health of the sector which, in turn, could impact the large forest products industry which it supports.

Historically, the departure of logging firms has been offset by productivity increases attained through the adoption of new harvesting technologies. But with 64% of logging firms already fully mechanized and the balance of firms somewhat constrained in their ability to mechanize because of terrain or timber characteristics, it remains to be seen what future productivity gains can be achieved.

A. Jeff Martin

Figure 21. **Factors influencing logging firm profitability and their relative importance.**

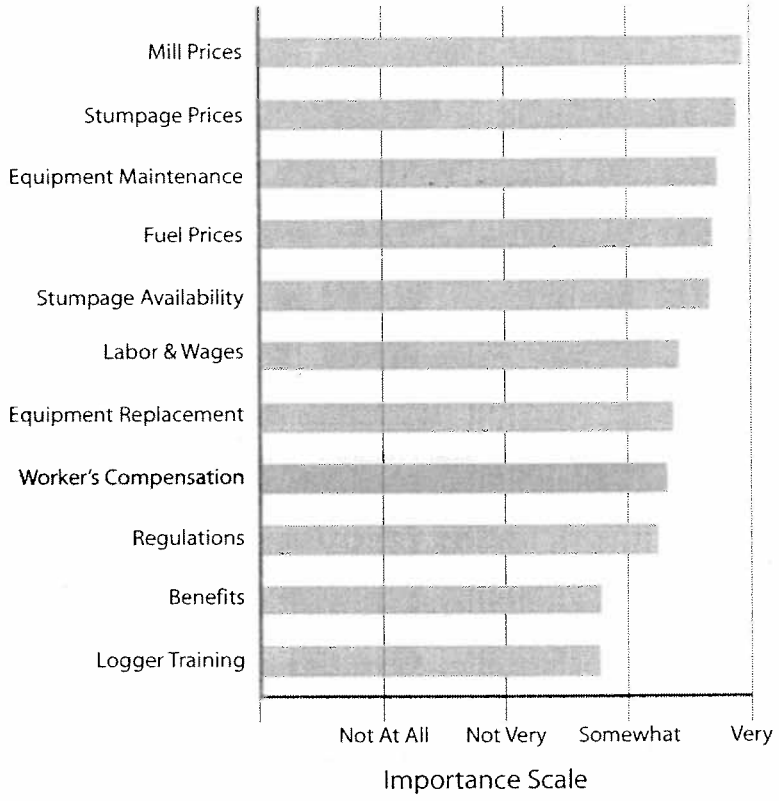
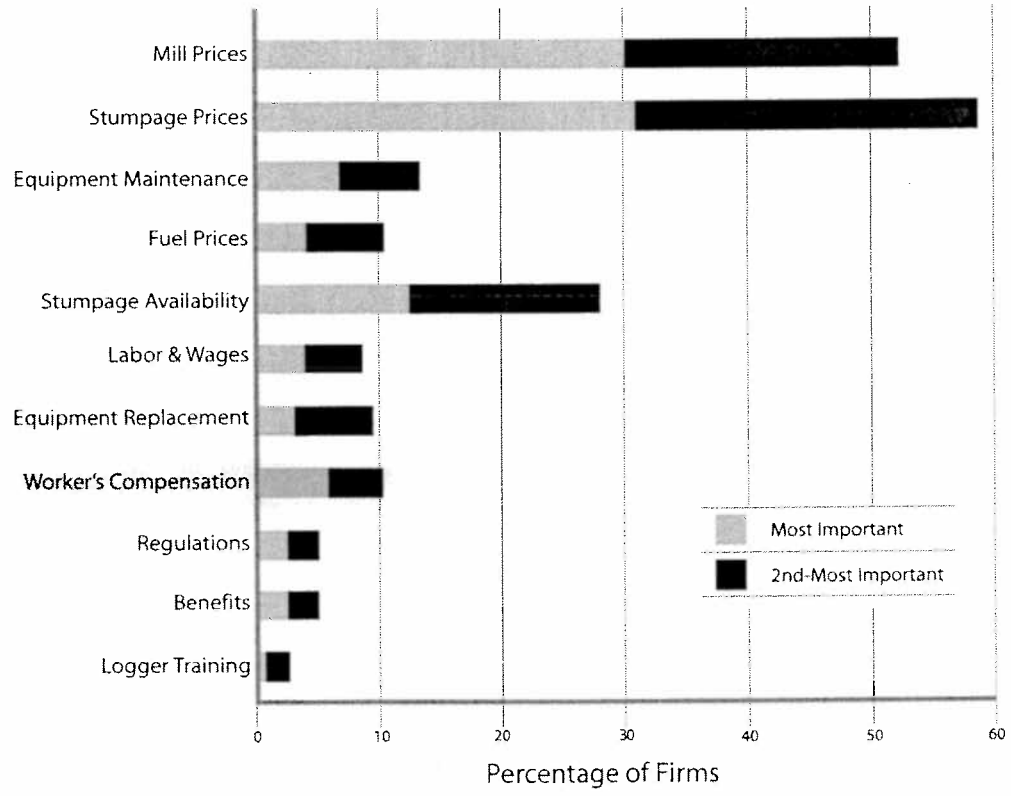


Figure 22. **Logging firm ratings of key profitability factors.**



SUMMARY, CONCLUSIONS, AND IMPLICATIONS

This study provides the first comprehensive look at the logging sector operating in Wisconsin and Michigan's Upper Peninsula. From our investigations, we found a complex and dynamic sector that links an extensive and diverse forest resource to an equally extensive and diverse wood products industry. Spatially, the regional logging sector has two distinct components. In southern Wisconsin, logging firms are typically chainsaw-based operations characterized by relatively low annual production and low capital investment. Consistent with forest ownership patterns, private woodlands are, by far, the dominant source of stumpage supply. Firm production is typically distributed across many small timber sales, with sawtimber comprising a relatively larger proportion of the product mix. In contrast, logging firms operating in northern Wisconsin and Michigan's Upper Peninsula are more likely to use mechanized harvesting systems that are highly productive, but require high capital investment. Private woodlands still remain the primary source of stumpage in the north, but industrial, corporate, and public forests contribute a sizeable portion of timber as well. Pulpwood is the dominant product removed and marketed. We conclude with a discussion of the three primary challenges we see facing the logging sector in the near term: accessing small woodland, global markets, and internal dynamics.

ACCESSING SMALL WOODLANDS

Logging firms harvest 60 percent of the region's timber from private woodlands. The last three decades have seen considerable change in woodland ownership and in the objectives and motivations of woodland owners. Considerably more people own forestland today than in the past, with only a slight increase in the total land area of private woodlands. To accommodate new owners, widespread parcelization has and continues to occur. The potential consequences of these changes are considerable. Past studies have shown that small private woodlands are less likely to be actively managed than large ones (Thompson and Jones 1981; Romm et al. 1987). Along with operational scale constraints, small ownerships may offer their owners fewer resource management options due to the limited area on which to pursue multiple objectives. Because timber production and income are rarely high priorities among woodland owners, future timber sales on small woodlands may be less intensive and may yield less timber per acre than in the past. This may be particularly true for the cohort of relatively affluent woodland owners from urban areas who are increasingly purchasing woodlands as recreational or retirement properties.

Logging firms have developed a mix of strategies to be competitive in a forest landscape comprised of variable parcel sizes and diverse ownerships. The data presented here and related studies suggest that one strategy has been a division or partitioning of the stumpage market within the region's logging sector (Rickenbach and Steele In press). It appears that logging firm owners deliberately structure their business to target a specific stumpage source. Public and corporate/industrial timber sales are typically larger than those found on private woodlands in terms of sale area and volume. As such, they offer scale economies that are attractive to highly productive, mechanized harvesting systems. In contrast, timber sales on private woodlands are usually smaller and may confer a competitive advantage to chainsaw-based firms that generally operate with lower fixed harvesting costs.

3. COMMENTS – INTERESTED PARTIES

The Timbermen submitted written comments and made an oral presentation to the Funds Review Committee. The Timbermen currently represents about 380 employers with about 3,000 employees.

The Timbermen believes that if the Logging Fund is eliminated, workers' compensation rates would increase about twenty percent (20%). This increased cost in overhead to the timber industry will be difficult to absorb by logging industry employers. The logging industry is the largest industry in the Upper Peninsula, exceeding the tourist industry. The Timbermen believe that the increase in workers' compensation rates would cause employers to go out of business and other logging industry employers might discontinue workers' compensation insurance and operate in violation of the Michigan Workers' Disability Compensation Act.

The Timbermen noted that an increase in workers' compensation rates cannot automatically be passed on to the consumer, since the wood mills dictate the price which will be paid for timber. It was also pointed out that there are a number of logging industry employers in Michigan who operate their business without workers' compensation insurance. It is estimated that about 35 percent of the logging employers do not carry the required workers' compensation insurance. The Timbermen urges the Bureau to increase enforcement of the law against uninsured employers.

The Timbermen believes that the logging industry will experience significant increase in workers' compensation costs on the 2702 classification code if the Logging Fund is eliminated.

The MTA opposes the elimination of the Logging Fund.

The MSIA believes the Logging Fund should be eliminated. If a significant number of employers in the logging industry do not carry workers' compensation insurance, then the state should put in place procedures to require employers to show proof of workers' compensation insurance when tax returns are filed with the state. The MSIA recommends that the Logging Fund continue to pay and litigate all existing claims, but that the Logging Fund should be eliminated for all future claims.

The Michigan Chamber of Commerce recommends that all funds be eliminated.

The Alliance of American Insurers recommends the Logging Fund be eliminated.

The American Insurance Association recommends that all funds be eliminated.

4. COMMITTEE CONCLUSIONS

a. The Committee concludes that the logging industry is not now threatened by extraordinary workers' compensation costs.

b. The Committee concludes that there is no existing basis to justify subsidizing part of the logging industry workers' compensation costs through the Logging Fund.

Wisconsin and MATSIF 2702 Manual Logging Rate History Comparison - 1974 to 2006

Year	Wisconsin 2702 Logging Rate	MATSIF 2702 Manual Logging Rate	MATSIF 2702 Manual Logging Rate + 20% if no LICF	Percentage difference of Wisconsin 2702 Manual Rate vs. MATSIF 2702 Manual Rate + 20% if no LICF	Wisconsin Rate dollar difference per $100 of payroll vs. MATSIF Rates for the 2702 Manual Rate + 20% if no LICF
1974	$ 10.75	$ 31.65			
1975	$ 12.16	$ 25.15			
1976	$ 12.92	$ 25.04			
1977	$ 14.59	$ 33.28			
1978	$ 15.89	$ 34.93			
1979	$ 17.84	$ 34.93			
1980	$ 21.70	$ 34.93	$ 34.93		
1981	$ 21.70	$ 36.43	$ 36.43		
1981 - 82*	$ 21.70	$ 11.99	$ 14.39	34%	$ 7.31
1982 - 83	$ 23.97	$ 10.90	$ 13.08	45%	$ 10.89
1983 - 84	$ 15.38	$ 10.60	$ 12.72	17%	$ 2.66
1984 - 85	$ 16.11	$ 10.60	$ 12.72	21%	$ 3.39
1985 - 86	$ 14.05	$ 12.00	$ 14.40	-2%	$ (0.35)
1986 - 87	$ 11.24	$ 15.00	$ 18.00	-60%	$ (6.76)
1987 - 88	$ 16.50	$ 16.41	$ 19.69	-19%	$ (3.19)
1988 - 89	$ 21.88	$ 24.57	$ 29.48	-35%	$ (7.60)
89 - 90	$ 27.73	$ 24.57	$ 29.48	-6%	$ (1.75)
1990 - 91	$ 22.92	$ 20.44	$ 24.53	-7%	$ (1.61)
1991 - 92	$ 24.81	$ 26.75	$ 32.10	-29%	$ (7.29)
1992 - 93	$ 23.95	$ 23.64	$ 28.37	-18%	$ (4.42)
1993 - 94	$ 24.77	$ 25.25	$ 30.30	-22%	$ (5.53)
1994 - 95	$ 24.95	$ 25.74	$ 30.89	-24%	$ (5.94)
1995 - 96	$ 26.44	$ 25.74	$ 30.89	-17%	$ (4.45)
1996 - 97	$ 28.77	$ 27.03	$ 32.44	-13%	$ (3.67)
1997 - 98	$ 32.13	$ 27.37	$ 32.84	-2%	$ (0.71)
1998 - 99	$ 32.47	$ 24.44	$ 29.33	10%	$ 3.14
1999 - 2000	$ 35.62	$ 24.44	$ 29.33	18%	$ 6.29
2000 - 01	$ 29.04	$ 24.44	$ 29.33	-1%	$ (0.29)
2001 - 02	$ 32.59	$ 25.90	$ 31.08	5%	$ 1.51
2002 - 03	$ 28.92	$ 27.11	$ 32.53	-12%	$ (3.61)
2003 - 04	$ 25.84	$ 29.12	$ 34.94	-35%	$ (9.10)
2004 - 05	$ 26.75	$ 29.12	$ 34.94	-31%	$ (8.19)
2005 - 06	$ 31.14	$ 28.54	$ 34.25	-10%	$ (3.11)

* In 1981, the Michigan Logging Industry Compensation Fund (LICF) went into effect. LICF is funded from assessments against all insurers. The LICF caps an insurer's -replacement payments to an injured logger to $25,000 or 104 weeks of weekly compens

Attachment 8

Michigan Association of Timbermen Self Insurers' Fund			Michigan Association of Timbermen Self Insurers' Fund With 20% Increase Due to No Logging Liability Fund			Wisconsin Rates			Percentage difference of Wisconsin Rate vs. MATSIF Rate	Wisconsin Rate dollar difference per $100 of payroll vs. MATSIF Rates	Percentage difference of Wisconsin Rate vs. MATSIF Rate + 20% Increase	Wisconsin Rate dollar difference per $100 of payroll vs. MATSIF Rates + 20% Increase
Code	Description	Rate per $100 of Payroll	Code	Description	Rate per $100 of Payroll	Code	Description	Rate per $100 of Payroll				
0005	Farm Nursery	$ 11.89	0005	Farm Nursery	$ 11.89	0005	Farm Nursery	$ 5.48	-53.9%	$ (6.41)	-53.9%	$ (6.41)
0128	Farms	$ 12.12	0128	Farms	$ 12.12	0006*	Farms	$ 5.33	-56.0%	$ (6.79)	-56.0%	$ (6.79)
2702	**Logging**	**$ 28.54**	**2702**	**Logging**	**$ 34.25**	**2702**	**Logging**	**$ 31.14**	**9.1%**	**$ 2.60**	**-9.1%**	**$ (3.11)**
2703	Mechanical Logging	$ 8.16	2703	Mechanical Logging	$ 8.16	2703**	Mechanical Logging	$ 31.14	281.6%	$ 22.98	281.6%	$ 22.98
2704	Log Truck Drivers	$ 12.64	2704	Log Truck Drivers	$ 12.64	7229*	Trucking - Local Haul	$ 11.91	-5.8%	$ (0.73)	-5.8%	$ (0.73)
2710	Sawmill	$ 18.54	2710	Sawmill	$ 18.54	2710	Sawmill	$ 16.38	-11.7%	$ (2.16)	-11.7%	$ (2.16)
2731	Planing & Molding	$ 8.55	2731	Planing & Molding	$ 8.55	2731	Planing & Molding	$ 7.25	-15.2%	$ (1.30)	-15.2%	$ (1.30)
2759	Pallet Shop	$ 15.12	2759	Pallet Shop	$ 15.12	2759	Pallet Shop	$ 7.93	-47.6%	$ (7.19)	-47.6%	$ (7.19)
2802	Carpentry (Shop & Drivers)	$ 10.59	2802	Carpentry (Shop & Drivers)	$ 10.59	2802	Carpentry (Shop & Drivers)	$ 6.09	-42.5%	$ (4.50)	-42.5%	$ (4.50)
2841	Woodenware Mfg.	$ 7.57	2841	Woodenware Mfg.	$ 7.57	2841	Woodenware Mfg.	$ 5.31	-29.9%	$ (2.26)	-29.9%	$ (2.26)
2881	Furniture Assembly	$ 4.91	2881	Furniture Assembly	$ 4.91	2881	Furniture Assembly	$ 3.60	-26.7%	$ (1.31)	-26.7%	$ (1.31)
2883	Furniture Mfg.	$ 11.85	2883	Furniture Mfg.	$ 11.85	2883	Furniture Mfg.	$ 5.78	-51.2%	$ (6.07)	-51.2%	$ (6.07)
2915	Veneer Products Mfg.	$ 13.98	2915	Veneer Products Mfg.	$ 13.98	2915	Veneer Products Mfg.	$ 10.47	-25.1%	$ (3.51)	-25.1%	$ (3.51)
2916	Veneer Products Mfg. - No Veneer	$ 6.46	2916	Veneer Products Mfg. - No Veneer	$ 6.46	2916	Veneer Products Mfg. - No Veneer	$ 3.06	-52.6%	$ (3.40)	-52.6%	$ (3.40)
3113	Tool Mfg.	$ 2.77	3113	Tool Mfg.	$ 2.77	3113	Tool Mfg.	$ 2.81	1.4%	$ 0.04	1.4%	$ 0.04
3365	Welding	$ 7.84	3365	Welding	$ 7.84	3365	Welding	$ 11.77	50.1%	$ 3.93	50.1%	$ 3.93
4000	Sand & Gravel Digging	$ 10.92	4000	Sand & Gravel Digging	$ 10.92	4000	Sand & Gravel Digging	$ 12.80	17.2%	$ 1.88	17.2%	$ 1.88
5606	Executive Supervision	$ 2.59	5606	Executive Supervision	$ 2.59	5606	Executive Supervision	$ 2.82	8.9%	$ 0.23	8.9%	$ 0.23
5610	Cleaner - Debris Removal	$ 7.91	5610	Cleaner - Debris Removal	$ 7.91	5610	Cleaner - Debris Removal	$ 9.28	17.3%	$ 1.37	17.3%	$ 1.37
6217	Excavation & Drivers	$ 13.57	6217	Excavation & Drivers	$ 13.57	6217	Excavation & Drivers	$ 7.08	-47.8%	$ (6.49)	-47.8%	$ (6.49)
7210	Truckmen-Long/Local	$ 12.37	7210	Truckmen-Long/Local	$ 12.37	7228*	Trucking - Long Haul	$ 10.62	-14.1%	$ (1.75)	-14.1%	$ (1.75)
7380	Drivers	$ 7.21	7380	Drivers	$ 7.21	7380	Drivers	$ 6.33	-12.2%	$ (0.88)	-12.2%	$ (0.88)
8017	Store Retail	$ 2.15	8017	Store Retail	$ 2.15	8017	Store Retail	$ 1.85	-14.0%	$ (0.30)	-14.0%	$ (0.30)
8018	Store Wholesale	$ 5.28	8018	Store Wholesale	$ 5.28	8018	Store Wholesale	$ 4.31	-18.4%	$ (0.97)	-18.4%	$ (0.97)
8059	Light Packaging	$ 5.57	8059	Light Packaging	$ 5.57	8010*	Store Hardware	$ 2.67	-52.1%	$ (2.90)	-52.1%	$ (2.90)
8232	Lumber Yard	$ 6.21	8232	Lumber Yard	$ 6.21	8232	Lumber Yard	$ 6.55	5.5%	$ 0.34	5.5%	$ 0.34
8265	Iron & Steel Erection	$ 24.24	8265	Iron & Steel Erection	$ 24.24	5057*	Iron & Steel Erection	$ 29.17	20.3%	$ 4.93	20.3%	$ 4.93
8601	Timber Cruiser	$ 1.21	8601	Timber Cruiser	$ 1.21	0108*	Country Forestry Horticultural	$ 4.06	235.5%	$ 2.85	235.5%	$ 2.85
8742	Salespersons	$ 0.69	8742	Salespersons	$ 0.69	8742	Salespersons	$ 0.61	-11.6%	$ (0.08)	-11.6%	$ (0.08)
8810	Clerical Office Employees	$ 0.69	8810	Clerical Office Employees	$ 0.69	8810	Clerical Office Employees	$ 0.29	-58.0%	$ (0.40)	-58.0%	$ (0.40)
9015	Buildings Operations - Maintenance	$ 7.53	9015	Buildings Operations - Maintenance	$ 7.53	9015	Buildings Operations - Maintenance	$ 4.83	-35.9%	$ (2.70)	-35.9%	$ (2.70)
Averages	**Rate Index (average rate)**	**$ 9.34**	**Averages**	**Rate Index (average rate)**	**$ 9.53**	**Averages**	**Rate Index (average rate)**	**$ 8.96**	**-1.2%**	**$ (0.70)**	**-1.8%**	**$ (0.89)**

*** Wisconsin equivalent code to Michigan Association of Timbermen Self Insurers' Fund code**

** Wisconsin Mechanized Logging Code is being developed

MATSIF and Wisconsin premium rate comparisons with 20% increase to MATSIF rates due to no Logging Liability Fund

Attachment 8-A

Michigan Association of Timbermen Self Insurers' Fund			Wisconsin Rates			Percentage difference of Wisconsin Rate vs. MATSIF Rate	Wisconsin Rate dollar difference per $100 of payroll vs. MATSIF Rates	MATSIF Rate dollar difference per $100 of payroll vs. Wisconsin
Code	Description	Rate per $100 of Payroll	Code	Description	Rate per $100 of Payroll			
0005	Farm Nursery	$ 11.89	0005	Farm Nursery	$ 5.48	-53.9%	$ (6.41)	$ 6.41
0128	Farms	$ 12.12	0006*	Farms	$ 5.33	-56.0%	$ (6.79)	$ 6.79
2702	Logging	$ 28.54	2702	Logging	$ 31.14	9.1%	$ 2.60	$ (2.60)
2703	Mechanical Logging	$ 8.16	2703**	Mechanical Logging	n/a	n/a	n/a	n/a
2704	Log Truck Drivers	$ 12.64	7229*	Trucking - Local Haul	$ 11.91	-5.8%	$ (0.73)	$ 0.73
2710	Sawmill	$ 18.54	2710	Sawmill	$ 16.38	-11.7%	$ (2.16)	$ 2.16
2731	Planing & Molding	$ 8.55	2731	Planing & Molding	$ 7.25	-15.2%	$ (1.30)	$ 1.30
2759	Pallet Shop	$ 15.12	2759	Pallet Shop	$ 7.93	-47.6%	$ (7.19)	$ 7.19
2802	Carpentry (Shop & Drivers)	$ 10.59	2802	Carpentry (Shop & Drivers)	$ 6.09	-42.5%	$ (4.50)	$ 4.50
2841	Woodenware Mfg.	$ 7.57	2841	Woodenware Mfg.	$ 5.31	-29.9%	$ (2.26)	$ 2.26
2881	Furniture Assembly	$ 4.91	2881	Furniture Assembly	$ 3.60	-26.7%	$ (1.31)	$ 1.31
2883	Furniture Mfg.	$ 11.85	2883	Furniture Mfg.	$ 5.78	-51.2%	$ (6.07)	$ 6.07
2915	Veneer Products Mfg.	$ 13.98	2915	Veneer Products Mfg.	$ 10.47	-25.1%	$ (3.51)	$ 3.51
2916	Veneer Products Mfg. - No Veneer	$ 6.46	2916	Veneer Products Mfg. - No Veneer	$ 3.06	-52.6%	$ (3.40)	$ 3.40
3113	Tool Mfg.	$ 2.77	3113	Tool Mfg.	$ 2.81	1.4%	$ 0.04	$ (0.04)
3365	Welding	$ 7.84	3365	Welding	$ 11.77	50.1%	$ 3.93	$ (3.93)
4000	Sand & Gravel Digging	$ 10.92	4000	Sand & Gravel Digging	$ 12.80	17.2%	$ 1.88	$ (1.88)
5606	Executive Supervision	$ 2.59	5606	Executive Supervision	$ 2.82	8.9%	$ 0.23	$ (0.23)
5610	Cleaner - Debris Removal	$ 7.91	5610	Cleaner - Debris Removal	$ 9.28	17.3%	$ 1.37	$ (1.37)
6217	Excavation & Drivers	$ 13.57	6217	Excavation & Drivers	$ 7.08	-47.8%	$ (6.49)	$ 6.49
7210	Truckmen-Long/Local	$ 12.37	7228*	Trucking - Long Haul	$ 10.62	-14.1%	$ (1.75)	$ 1.75
7380	Drivers	$ 7.21	7380	Drivers	$ 6.33	-12.2%	$ (0.88)	$ 0.88
8017	Store Retail	$ 2.15	8017	Store Retail	$ 1.85	-14.0%	$ (0.30)	$ 0.30
8018	Store Wholesale	$ 5.28	8018	Store Wholesale	$ 4.31	-18.4%	$ (0.97)	$ 0.97
8059	Light Packaging	$ 5.57	8010*	Store Hardware	$ 2.67	-52.1%	$ (2.90)	$ 2.90
8232	Lumber Yard	$ 6.21	8232	Lumber Yard	$ 6.55	5.5%	$ 0.34	$ (0.34)
8265	Iron & Steel Erection	$ 24.24	5057*	Iron & Steel Erection	$ 29.17	20.3%	$ 4.93	$ (4.93)
8601	Timber Cruiser	$ 1.21	0108*	Country Forestry Horticultural	$ 4.06	235.5%	$ 2.85	$ (2.85)
8742	Salespersons	$ 0.69	8742	Salespersons	$ 0.61	-11.6%	$ (0.08)	$ 0.08
8810	Clerical Office Employees	$ 0.69	8810	Clerical Office Employees	$ 0.29	-58.0%	$ (0.40)	$ 0.40
9015	Buildings Operations - Maintenance	$ 7.53	9015	Buildings Operations - Maintenance	$ 4.83	-35.9%	$ (2.70)	$ 2.70
Averages	**Rate Index (average rate)**	**$ 9.34**		**Rate Index (average rate)**	**$ 7.92**	**-10.6%**	**$ (1.46)**	**$ 1.46**

* Wisconsin equivalent code to Michigan Association of Timbermen Self Insurers' Fund code

** Wisconsin Mechanized Logging Code is being developed

MATSIF Premium Size	Premium Discount
$0 to $5000	0%
$5001 to $25,000	5.00%
$25,001 to $100,000	11.50%
Over $100,000	12.50%

Average MATSIF Rate	Average MATSIF Rate with premium discount applied	Average Wisconsin Rate	Percentage difference of Average Wisconsin Rate vs. MATSIF Discounted Average Rate
$9.34	$9.34	$7.92	-15.2%
$9.34	$8.87	$7.92	-10.7%
$9.34	$8.27	$7.92	-4.2%
$9.34	$8.17	$7.92	-3.1%

Attachment 9

MATSIF and Wisconsin Premium Rate Comparisons Based on $100,000 Annual Payroll Per Classification Code

Michigan Association of Timbermen Self Insurers' Fund					Wisconsin Rates					
Code	Description	Rate per $100 of Payroll	Annual Payroll	MATSIF Premium Charge	Code	Description	Rate per $100 of Payroll	Annual Payroll	Wisconsin Premium Charge	Wisconsin premium charge difference per $100,000 of payroll vs. MATSIF premium charge
0005	Farm Nursery	$ 11.89	$ 100,000	$ 11,890.00	0005	Farm Nursery	$ 5.48	$ 100,000	$ 5,480.00	$ (6,410.00)
0128	Farms	$ 12.12	$ 100,000	$ 12,120.00	0006*	Farms	$ 5.33	$ 100,000	$ 5,330.00	$ (6,790.00)
2702	Logging	$ 28.54	$ 100,000	$ 28,540.00	2702	Logging	$ 31.14	$ 100,000	$ 31,140.00	$ 2,600.00
2703	Mechanical Logging	$ 8.16	$ 100,000	$ 8,160.00	2703**	Mechanical Logging	$ 31.14	$ 100,000	$ 31,140.00	$ 22,980.00
2704	Log Truck Drivers	$ 12.64	$ 100,000	$ 12,640.00	7229*	Trucking - Local Haul	$ 11.91	$ 100,000	$ 11,910.00	$ (730.00)
2710	Sawmill	$ 18.54	$ 100,000	$ 18,540.00	2710	Sawmill	$ 16.38	$ 100,000	$ 16,380.00	$ (2,160.00)
2731	Planing & Molding	$ 8.55	$ 100,000	$ 8,550.00	2731	Planing & Molding	$ 7.25	$ 100,000	$ 7,250.00	$ (1,300.00)
2759	Pallet Shop	$ 15.12	$ 100,000	$ 15,120.00	2759	Pallet Shop	$ 7.93	$ 100,000	$ 7,930.00	$ (7,190.00)
2802	Carpentry (Shop & Driver	$ 10.59	$ 100,000	$ 10,590.00	2802	Carpentry (Shop & Driver	$ 6.09	$ 100,000	$ 6,090.00	$ (4,500.00)
2841	Woodenware Mfg.	$ 7.57	$ 100,000	$ 7,570.00	2841	Woodenware Mfg.	$ 5.31	$ 100,000	$ 5,310.00	$ (2,260.00)
2881	Furniture Assembly	$ 4.91	$ 100,000	$ 4,910.00	2881	Furniture Assembly	$ 3.60	$ 100,000	$ 3,600.00	$ (1,310.00)
2883	Furniture Mfg.	$ 11.85	$ 100,000	$ 11,850.00	2883	Furniture Mfg.	$ 5.78	$ 100,000	$ 5,780.00	$ (6,070.00)
2915	Veneer Products Mfg.	$ 13.98	$ 100,000	$ 13,980.00	2915	Veneer Products Mfg.	$ 10.47	$ 100,000	$ 10,470.00	$ (3,510.00)
2916	Veneer Products Mfg. - N	$ 6.46	$ 100,000	$ 6,460.00	2916	Veneer Products Mfg. - N	$ 3.06	$ 100,000	$ 3,060.00	$ (3,400.00)
3113	Tool Mfg.	$ 2.77	$ 100,000	$ 2,770.00	3113	Tool Mfg.	$ 2.81	$ 100,000	$ 2,810.00	$ 40.00
3365	Welding	$ 7.84	$ 100,000	$ 7,840.00	3365	Welding	$ 11.77	$ 100,000	$ 11,770.00	$ 3,930.00
4000	Sand & Gravel Digging	$ 10.92	$ 100,000	$ 10,920.00	4000	Sand & Gravel Digging	$ 12.80	$ 100,000	$ 12,800.00	$ 1,880.00
5606	Executive Supervision	$ 2.59	$ 100,000	$ 2,590.00	5606	Executive Supervision	$ 2.82	$ 100,000	$ 2,820.00	$ 230.00
5610	Cleaner - Debris Remova	$ 7.91	$ 100,000	$ 7,910.00	5610	Cleaner - Debris Remova	$ 9.28	$ 100,000	$ 9,280.00	$ 1,370.00
6217	Excavation & Drivers	$ 13.57	$ 100,000	$ 13,570.00	6217	Excavation & Drivers	$ 7.08	$ 100,000	$ 7,080.00	$ (6,490.00)
7210	Truckmen-Long/Local	$ 12.37	$ 100,000	$ 12,370.00	7228*	Trucking - Long Haul	$ 10.62	$ 100,000	$ 10,620.00	$ (1,750.00)
7380	Drivers	$ 7.21	$ 100,000	$ 7,210.00	7380	Drivers	$ 6.33	$ 100,000	$ 6,330.00	$ (880.00)
8017	Store Retail	$ 2.15	$ 100,000	$ 2,150.00	8017	Store Retail	$ 1.85	$ 100,000	$ 1,850.00	$ (300.00)
8018	Store Wholesale	$ 5.28	$ 100,000	$ 5,280.00	8018	Store Wholesale	$ 4.31	$ 100,000	$ 4,310.00	$ (970.00)
8059	Light Packaging	$ 5.57	$ 100,000	$ 5,570.00	8010*	Store Hardware	$ 2.67	$ 100,000	$ 2,670.00	$ (2,900.00)
8232	Lumber Yard	$ 6.21	$ 100,000	$ 6,210.00	8232	Lumber Yard	$ 6.55	$ 100,000	$ 6,550.00	$ 340.00
8265	Iron & Steel Erection	$ 24.24	$ 100,000	$ 24,240.00	5057*	Iron & Steel Erection	$ 29.17	$ 100,000	$ 29,170.00	$ 4,930.00
8601	Timber Cruiser	$ 1.21	$ 100,000	$ 1,210.00	0108*	Country Forestry Horticult	$ 4.06	$ 100,000	$ 4,060.00	$ 2,850.00
8742	Salespersons	$ 0.69	$ 100,000	$ 690.00	8742	Salespersons	$ 0.61	$ 100,000	$ 610.00	$ (80.00)
8810	Clerical Office Employees	$ 0.69	$ 100,000	$ 690.00	8810	Clerical Office Employees	$ 0.29	$ 100,000	$ 290.00	$ (400.00)
9015	Buildings Operations - Ma	$ 7.53	$ 100,000	$ 7,530.00	9015	Buildings Operations - Ma	$ 4.83	$ 100,000	$ 4,830.00	$ (2,700.00)
		$ 9.34	Total premium =	**$ 289,670.00**			**$ 8.67**	Total premium =	**$ 268,720.00**	$ (20,950.00)

$289,670 premium charge minus 12.5% premium discount =	$ 253,461.37	$268,720 premium - No WI Experience Mod Rate Applied =	$ 268,720.00	$ 15,258.63
$289,670 premium charge minus 12.5% premium discount =	$ 253,461.37	$268,720 premium - .90 WI Experience Mod Rate Applied =	$ 241,848.10	$ (11,613.27)
$289,670 premium charge minus 12.5% premium discount =	$ 253,461.37	$268,720 premium - .80 WI Experience Mod Rate Applied =	$ 214,976.20	$ (38,485.17)
$289,670 premium charge minus 12.5% premium discount =	$ 253,461.37	$268,720 premium - .70 WI Experience Mod Rate Applied =	$ 188,104.30	$ (65,357.07)

* Wisconsin equivalent code to Michigan Association of Timbermen Self Insurers' Fund code

**** Wisconsin Mechanical Logging Rate is being developed so we applied the current 2702 logging rate of $31.14 to the Mechanical Logging Rate**

Attachment 9-A

Part Two

Questions & Answers Regarding Worker's Compensation Insurance
For Loggers in Michigan and Wisconsin

Department of Workforce Development
Worker's Compensation Division
201 E. Washington Ave., Rm. C100
P.O. Box 7901
Madison, WI 53707-7901
Telephone: (608) 266-1340
Fax: (608) 267-0394
http://dwd.wisconsin.gov/wc
e-mail: DWDDWC@dwd.state.wi.us

Questions & Answers Regarding Worker's Compensation Insurance for Loggers in Michigan and Wisconsin

1. What is the premium rate for the manual logging classification code 2702 charged by the Michigan Association of Timbermen Self-Insurers' Fund?

$28.54 per $100 of payroll.

2. What is the premium rate for the manual logging classification code 2702 charged by the Michigan Assigned Risk Pool?

$56.63 per $100 per of payroll.

3. What is the Michigan Average Statewide Pure Premium rate for the manual logging classification code 2702?

$33.06 per $100 of payroll.

4. What is the premium rate for the manual logging classification code 2702 charged in Wisconsin?

$31.14 per $100 of payroll.

5. If a logger is not a member of the Michigan Association of Timbermen Self-Insurers' Fund, what rate do they pay for logging code 2702?

If the logger purchases their insurance through the Michigan Assigned Risk Pool they pay $56.63 per $100 of payroll. In Michigan, group self-insurance has lead to dramatically increased premiums for employers who remain in the voluntary market and the Assigned Risk Pool.

6. How many Michigan loggers are members of the Michigan Association of Timbermen Self-Insurers' Fund?

271 members have one of the two logging codes on their policy.

7. How many Michigan loggers that are not members of the Michigan Association of Timbermen Self-Insurers' Fund have individual policies?

There are 576 polices written in the assigned risk pool and 53 policies written in the voluntary market.

8. So if a Michigan logger elects not to be a member of the Michigan Association of Timbermen Self-Insurers' Fund or is rejected by the Michigan Association of Timbermen Self-Insurers' Fund and must obtain worker's compensation insurance in the Michigan assigned risk pool what premium rate do they pay for classification code 2702?

$56.63 per $100 of payroll.

9. If Wisconsin adopted the Michigan Group Self-Insurance law, based on what happened to the assigned risk rates in Michigan, what would the estimated rate be for either a logger that did not want to join the group or a logger that was rejected by the Group?

The Michigan Association of Timbermen Self-Insurers' Fund rate is $28.54 per $100 of payroll. The assigned risk rate is $56.63 per $100 of payroll, 98.42% greater that the Group rate.

The current Wisconsin rate is $31.14 per $100 of payroll. If the $31.14 rate increased by 98.42%, the rate would be $61.79 per $100 of payroll.

10. If a logger obtains a worker's compensation insurance policy in Wisconsin does he or she know the cost of the policy?

Yes, there is a guaranteed fee structure. Employers know exactly how much they will pay private insurance companies.

11. What if an insured logger has a $2 million claim, will the logger have to pay additional money to the insurance carrier?

No, the employer pays only the policy premium based on the wages the employer pays its employees. All claims regardless of size and severity are covered under the policy and the employer is protected from tort action related to the work injury.

12. Does the Michigan Association of Timbermen Self-Insurers' Fund have a guaranteed fee structure?

No, there is no guaranteed fee structure. Ultimate costs of operation and claims are based on performance and cannot be guaranteed. If contributions and investment earnings are not sufficient to cover costs, members may be required to make additional contributions.

13. Has the Michigan Association of Timbermen Self-Insurers' Fund ever required members to make additional contributions?

Yes.

14. What if a member of the Michigan Association of Timbermen Self-Insurers' Fund has a $2 million claim, will the member have to pay additional money to the Fund?

If contributions and investment earnings are not sufficient to cover costs, members may be required to make additional contributions.

15. Has Wisconsin approved the filing for a mechanized logging classification code?

Yes, the mechanized classification code was approved in December 2005.

16. How long will it take for the mechanized logging classification code premium rate to be developed ?

5 years.

17. 5 years seems like a long time to take to develop a premium rate on a new classification code. How long did it take the Michigan Association of Timbermen Self-Insurers' Fund to develop the mechanized logging code premium rate?

5 years, 1980 to 1984.

18. Are there any other differences in Michigan law that affect rates for Logging?

Yes. Michigan has several special purpose funds. One example is the Logging Industry Compensation Fund (LICF). An insurer or self-insurer in Michigan is only responsible for two years worth of wage replacement expense of any logging claim, with payments beyond that limit covered by the LICF. The LICF is funded by assessments against all insurers, effectively a subsidy to the logging industry. According to MATSIF, if the LICF were to be abolished, MATSIF's rates would rise by 20%.

In addition to the LICF, Michigan has several other special funds that pay portions of certain claims, including logging claims. Because these other funds are not industry-specific, it is not possible to estimate the magnitude of their effect on logging rates. However, it is clear that these other funds are used to subsidize rates in hazardous industries at the expense of higher rates for less-hazardous industries.

19. If Michigan ceased subsidizing the logging industry through the LICF, and MATSIF raised its rates by the projected 20%, how would Wisconsin's unsubsidized rates compare?

Favorably, with the Wisconsin rate of $31.14 per $100 of payroll being 9% less than the projected MATSIF rate of $34.25. Similarly, for Michigan loggers not in MATSIF, their rates would rise to an average of $39.67 in the voluntary market, and an astounding $67.96 in the assigned risk pool.

Insured mechanized loggers in Michigan pay the same rates as manual loggers. Mechanized logging members of MATSIF are eligible for a lower rate, which would be projected to rise from the current $8.16 to $9.79. Wisconsin recently approved a mechanized logging classification code, but a separate rate is not yet available for comparison. However, when the Wisconsin mechanized logging rate is established, it will be available for all employers, not just a subset of employers, as is the case in Michigan.

20. According to the 2003 University of Wisconsin – Madison Extension study on the Status of the Logging Sector in Wisconsin and Michigan's Upper Peninsula, what percentage of the firms surveyed reported they are exclusively chainsaw-based operations?

36% of the firms surveyed reported they are exclusively chainsaw-based operations. These operations are classified as manual logging operations.

21. What rate would the 36% of loggers that have manual logging operation currently pay in the assigned risk pool in Michigan?

$56.63 per $100 per of payroll.

22. What rate would the 36% of loggers that have manual logging operations currently pay in the assigned risk pool in Wisconsin?

$31.14 per $100 of payroll.

23. What did the study find regarding the difference between logging operation in northern Wisconsin compared to southern Wisconsin?

"...the regional logging sector has two distinct components. In southern Wisconsin, logging firms are typically chainsaw-based operations characterized by relatively low annual production and low capital investment."

"In contrast, logging firms operating in northern Wisconsin and Michigan's Upper Peninsula are more likely to use mechanized harvesting systems that are highly productive, but require high capital investment."

24. According to the 2003 University of Wisconsin – Madison Extension study on the Status of the Logging Sector in Wisconsin and Michigan's Upper Peninsula, where did worker's compensation rank in the eleven factors affecting logging firms profitability and their relative importance?

With 1 being the most important and 11 the least important, worker's compensation ranked 8 out of 11.

25. What did the study say about employment in the logging industry?

"The majority of logging firms (62%) reported having no employees. Typically, these individuals sub-contract a portion or portions of the harvesting process to others in the logging or trucking sector. Based on anecdotal evidence, this is a substantial change in business practice compared to twenty years ago. Historically, logging was a labor-intensive activity in which firms employed many workers. Crews of 10, 20, 30, or more employees were common. ***However, capital, in the form of highly productive and efficient logging equipment, has replaced the individual worker on the forest floor..."*** (emphasis added)

"For firms with employees, ***88% of respondents indicated that reliable workers were hard to find. Eighty-seven percent also said skilled workers were hard to find.*** These results were consistent across the three sub-regions, however, assessments of worker turnover differed by sub-region. More respondents from southern Wisconsin (26%) agreed that worker turnover was high. In contrast, 18% of the firms with employees in northern Wisconsin firms and 21% of the firms with employees in Michigan's Upper Peninsula reported that they agreed with the statement. ***Collectively, these responses suggest that labor availability and, to a lesser extent, labor retention, may be problematic in the regional logging sector."*** (emphasis added)

26. What did the study say about worker's compensation?

"Modifying worker's compensation rules and rates does present a credible opportunity to improve firm profitability. However, the impact of any changes may not be uniform across the sector or region. Nearly two-thirds (64%) of all firms were fully mechanized and 62% reported having no employees. In addition, only firms located in southern Wisconsin identified worker's compensation as an important profitability issue. ***Therefore changes to worker's compensation may have uneven impacts within the sector. This is not to suggest that worker's compensation changes should not be pursued; rather, policy makers need to be aware of the potential for variable impacts on the region's logging firms."*** (emphasis added)

27. What is joint and several liability?

Liability arising from a contract or from a tort that applies to the responsible persons either separately (severally) or in combination (jointly), at the injured person's option. If a group of persons who default on an obligation or cause a loss are held jointly and severally liable either by terms of the contract or by operation of law, the claimant may sue either the group or any one member for the entire amount owed. This is a way to compensate an injured person if, for example, one or more liable persons are bankrupt or flee the jurisdiction.

Every member of the group is responsible for each others' losses. The legal term for sharing losses as well as dividends is *called joint and several liability.* Each member is jointly and severally liable to all other members of the pool for all liability under a specific states' workers' compensation law. If one member goes bankrupt, the remaining members must cover any outstanding unreserved and uncollateralized claims. In addition, a costly claim against one member or a poor safety record may reflect directly on the amount each member pays.

28. What action does the Department of Workforce Development currently take if an employer defaults on their obligation?

The Department uses aggressive judicial collection action. Judicial action may include (but is not limited to) a warrant placing a lien on all real and personal property (land, buildings, homes, cottages), issuing levies against all bank accounts, garnishing wages, execution against property (land, cars, trucks, boats, tools, machinery), attachment of any income tax refund for which the debtor may be eligible from the Wisconsin Department of Revenue and assessing personal liability against any officer or director of a debtor employer that is a corporation and any member or manager of a debtor limited liability company to secure satisfaction of the liability due.

29. Has any Michigan Self-Insured Group ever failed?

No.

30. Has a Self-Insured group ever failed elsewhere?

Yes, for example, Florida, North Carolina, Illinois, Tennessee, Kentucky have all suffered Group self-insurance failures.

31. What happened in Florida & Kentucky after group self-insurance was legalized?

In Florida, several group funds have gone bankrupt (leaving injured workers twisting in the wind without benefits.) In the case of one of the bankrupt funds, a third-party administrator was found to have misappropriated some $3 million that should have gone to claimants.

In June 2004, the Kentucky Associated Industries of Kentucky Group Self-insurance Fund (AIK Comp) asked the state for permission to assess its 2,300 members as much as $49 million to cover a shortfall of at least $40 million. (the original $49 million assessment has been revised and is currently $90.7 million.)

What is AIK Comp?

AIK Comp is a group self-insurance fund providing workers' compensation insurance to members of the Associated Industries of Kentucky (AIK). AIK Comp is sponsored by AIK but is a separate entity. According to company figures, about 2,300 AIK member businesses are insured through AIK Comp, representing about 70,000 employees.

What has been the issue with AIK Comp?

In late June, AIK Comp asked the state to approve a plan that would allow it to assess its members $49 million in retroactive premiums. The plan proposed by AIK Comp would have used the money to cover a shortfall of about $40 million (policy years 1997-2002) with the remaining going to build up reserves. AIK Comp said it would stop offering new coverage if the state did not approve this plan.

How could a company ask its insureds to pay for a shortfall?

Group self-insurers operate differently than private companies in that its members are "co-owners" of the fund. This usually means the members get lower premiums than in the regular market but can be assessed if the fund runs short. Because of this, such a fund should never face insolvency because members have agreed to cover any shortfall.

Will employers who are members of the Fund be assessed for the shortfall?

Yes, the employers signed an agreement stating they were subject to "joint and several liability," meaning they agreed to be responsible for covering claims made against the AIK Comp Fund.

What is the latest update on the AIK situation?
On February 2, 2006, the Kentucky Office of Insurance issued the following press release.

AIK COMP MEMBERS PAY $68 MILLION IN CASH, NOTES
Legal actions against non-paying members to begin Feb. 7

FRANKFORT, Ky. (Feb. 2, 2006) – AIK Comp members have paid over $68 million in cash and promissory notes toward a $90.7 million assessment ordered by the Franklin Circuit Court in November 2005. The assessment followed a settlement reached in court-ordered mediation between the rehabilitator and certain members of the failed workers' compensation self-insured group.

"We are very pleased at the response from these members. We know it has been difficult for many to fulfill this obligation and we commend them for stepping up," said Glenn Jennings, the rehabilitator, who is also executive director of the Kentucky Office of Insurance.

Members had 60 days to pay 80 percent of the pro-rata assessment and provide a promissory note for the remaining 20 percent. After Feb. 7, non-compliant members will be charged 1 percent interest per month and will be liable for the costs of any collection efforts, including attorney fees.

"Beginning Feb. 7, we will begin aggressive collection efforts against those members who have made no effort to pay the assessment due. We offered a payment plan for those who could show hardship and feel we have made every effort to work cooperatively with the members," said Jennings.

AIK Comp entered into voluntary rehabilitation on Aug. 5, 2004. The fund announced in late December 2004 that it would suspend writing new or renewal business, effective Jan. 1, 2005. All policies ended March 1, 2005.

In an October 2005 editorial, the following is what the Advanced Insurance Management Group had to say about the AIK Comp group self-insurance situation and the viability of group self-insurance.

Cleanup of Kentucky Workers Comp Mess Proposed
October 6, 2005--The Kentucky Office of Insurance reports than an agreement has been reached to bail out the AIK workers compensation fund. This was a group self insurance fund that was widely marketed to Kentucky employers as an alternative to traditional insurance policies, an alternative that offered lower rates and premiums. Many employers who participated, however, are only now learning to their regret just how high the ultimate cost of this program truly was.

Like many group self-insurance programs, the rates charged participating employers were unrealistically low, and the program ultimately couldn't pay all the claims of participating employers. The fund is now no longer taking on new employers, and is struggling to pay off the claims it's already responsible for.

As many employers elsewhere have also learned about these group self-insurance programs, participants can be held liable for the overall deficit of the group. Employers in Kentucky who participated in the AIK program are now being asked to pay large assessments to cover the costs of winding down the program.

Group self-insurance programs seemed like a viable alternative to traditional Workers' Compensation insurance, ***but so many of them have met fates like that of the AIK program that one has to wonder if the rate reductions offered are ever worth the risks inherent in these programs. So many of these group self insurance programs have failed and left participants with costly assessments that any employer would be well advised to think long and hard before jumping at the lower rates and premiums offered by such programs.*** The history of these funds is that many of them have been poorly run and regulated. ***Worse, they were often marketed to unsophisticated employers as being the same as "regular" Workers' Compensation insurance coverage, without having the potential pitfalls adequately explained. Only in the wake of failed self-insurance programs have many employers learned of the risk they were taking by participating.*** (emphasis added)

32. So, if DWD opposes group self-insurance due to the substantial risk to both employees and employers, would DWD support something akin to the Michigan Logging Industry Compensation Fund?

No. DWD would not support the concept of a fund whereby all other industries subsidize the logging industry. The design of the worker's compensation rate system is such that each industry pays premium sufficient to satisfy claims made by workers in that industry.

33. If group self-insurance adds too much risk to the system, and cross-industry subsidies are poor public policy, what else can be done to lower premium rates for loggers?

Minnesota has adopted an intra-industry subsidy model. Each mill in that state pays an assessment of 30 cents per cord of wood purchased into a state fund, exempting the first 5,000 cords of wood purchased per mill per year. The state uses the first $125,000 of the fund to administer safety training programs for logging employees. The remainder of the fund is rebated to loggers based on each employer's pro-rata share of premium paid, but only if that logger's employees have attended the safety programs noted above.

34. What advantages does the Minnesota model have over Michigan's?

First, it's questionable whether group self-insurance has resulted in any savings at all in Michigan, and if it has, it's only for those employers in the group. Minnesota's plan is open to all that participate in the safety programs.

Second, it was suggested by proponents at the Forestry Committee's January 10, 2006 hearing that, absent action to lower logger's premium rates, Wisconsin's forests would not be properly managed and mills would not be adequately supplied with the raw material needed. If mills in Wisconsin concur with that supposition, they should support a mill assessment such as in Minnesota. DWD would not object to such a system, as it avoids the public policy problem of raising worker's compensation premium rates for other industries, as exists in Michigan.

Third, the Minnesota model has demonstrated a history of substantially reducing the net (after rebate) premium for loggers in that state, while rates for many loggers in Michigan are similar to or greatly exceed that paid by Wisconsin loggers, despite the subsidy funds and group self-insurance option in Michigan. For example, the assigned risk rate for loggers in Minnesota has been declining in recent years, averaging near $50 per $100 of payroll in the 1990's to $20.38 in 2005. In addition, loggers participating in the Minnesota safety programs have received rebates averaging about 10% of reported payroll, essentially lowering the after rebate premium to just over $10 per $100 of payroll for 2005. Because of this incentive to participate in the safety programs and report employee payroll in the logging class code, Minnesota has seen reported logging payroll increase, nearly doubling from $5.6 million in 1994 to $10.3 million in 2002. In the same period, Wisconsin has seen reported logging payroll decrease from $21.8 million in 1994 to $11.8 million in 2002. Comparable data for Michigan is not published, but it is likely that reported logging payroll in that state has also been declining.