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Summary

Oregon state government should not be in the insurance business. We should follow Michigan's lead and sell SAIF, our workers' compensation agency. If sold on the open market, the assets of SAIF and the Industrial Accident Fund would be worth about $2 billion more than their future liabilities.

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It's time to unlock SAIF

by William B. Conerly, Ph.D.

In light of Oregon's current budget crisis, it is more important than ever for lawmakers and the public to look critically at all functions of state and local government. For example, SAIF Corporation, the state government agency that sells workers' compensation insurance, has locked away hundreds of millions of excess dollars that belong to the people of Oregon.

Cascade Policy Institute just published my report, *The Benefits of Unlocking SAIF: Why Oregon Should Open Its Workers' Compensation Market*. Among my major findings are:

- SAIF has $200 million to $500 million more in reserves for future payments than it needs. In addition, it has a huge cushion of about $1.1 billion because its reserves for future payments are not discounted to take into account the time value of money. SAIF's reported surplus is also about $200 million higher than an insurer its size needs. Combining these figures, SAIF could pay a dividend to its owner of $400 to $700 million and still have a $1.1 billion cushion against unforeseen problems.

- If sold on the open market, the assets of SAIF Corporation and the Industrial Accident Fund are worth about $2 billion more than their future liabilities.

Some argue that the state must sell worker's compensation insurance because it requires all employers to carry it. If this were true, why doesn't the state sell automobile insurance—or seat belts for that matter—both things the state requires of drivers?

The fact that the State of Oregon runs a workers' compensation company is a historical artifact, not a necessity. Michigan did just what I recommend. In 1994 the Great Lakes State sold its workers' compensation agency, and employers' insurance rates fell the next year. In 2000 Nevada gave its insurance operation to the policyholders, making it a mutual insurance company. Oregon could follow Michigan or Nevada's lead after transferring excess resources to the state.

SAIF is owned by the government and it pays no taxes, but it acts much like a private company. SAIF keeps its pricing structure a "trade secret." SAIF pays its

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top executive three time what the governor earns, and it has business relationships with trade associations that might be appropriate for a private insurer, but raise troubling political questions for a state agency. No other state agency could act like SAIF. No other agency could accumulate hundreds of millions of excess dollars that weren't needed to accomplish its mission.

Legislators and the governor could simply tinker with SAIF and use some of its excess resources to fill budget holes. This is the least desirable option, however, because it doesn't remove the state from a business it shouldn't be in. The best solution is to sell SAIF and for legislators to focus attention on government's true core functions, such as public safety and courts.

Huge budget deficits and the enormous economic pressures on taxpayers, working families and businesses, make it imperative that our state leaders take a hard look at SAIF Corporation. The private sector is perfectly able to provide workers' compensation policies that protect injured workers at an affordable cost to employers. It's time for government to get out of the insurance business and free up SAIF's excess resources for the benefit of all Oregonians.

William B. Conerly, Ph.D. is the principle of Conerly Consulting, chairman of Cascade Policy Institute and author of Cascade's report, The Benefits from Unlocking SAIF, *available at www.cascadepolicy.org.*

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