

# **South Carolina's Business Climate**

From day one, this administration's goal has been to make South Carolina more competitive in attracting jobs and capital investment. But the road to global competitiveness is filled with roadblocks – including the current condition of our workers' compensation system, our state tax code and the rising cost of health insurance for small businesses and their employees.

While the workers' comp system is a difficult thing to understand, I think most people would agree that something was clearly wrong when the National Council on Compensation Insurance proposed a 33 percent overall rate increase for last year. Fortunately, a 2006 ruling by a state administrative law judge imposed a lower average increase of 18.4 percent increase in workers' compensation insurance premiums for the year, but this does not diminish the necessity of reform. Still, I believe workers' compensation rates in South Carolina are scaring off business investment and killing jobs in our state. Since 2000, S.C. ranks second in terms of workers' compensation rate growth.

In 2000, South Carolina ranked 49<sup>th</sup> in the nation in workers' compensation premium rates and moved up to 42<sup>nd</sup> in 2002 and moved three more spots in 2004 to 39<sup>th</sup>. The numbers are even more alarming from the most recent ranking. Currently, South Carolina has the 25<sup>th</sup> highest premium in the nation – jumping 24 spots in just six years. In fact, since 2000, South Carolina has led the Southeast in premium increases and only two other states in the nation – Vermont and Alaska – have increased at a faster pace.

Our workers' comp system is not only too costly, it's also too subjective. Reforming the Workers' Compensation Commission has become important not just because of drastic rate increases, but because it lacks award consistency, objectivity and accountability. The Second Injury Fund has also seen skyrocketing assessments. Currently, one third of every dollar in workers' comp premiums goes to the Second Injury Fund, though only about two percent of employers actually receive reimbursements. To give you a sense of how out of balance our system is, assessments in this state are 10 times California's, the reverse of what you would expect in our state that also happens to be 10 times smaller than California.

California and Florida both passed workers' compensation reform in 2003 and have started to reap the benefits. California has seen a cumulative rate reduction of 55 percent since July 2003 while Florida has filed for a 13 percent rate decrease in 2006, making it the fourth consecutive drop in rates since the system was reformed.

Second in this package, we believe part of our state's ability to compete lies in our competitiveness in different tax categories. As an administration, we have come to agree with many of you who believe that we should take a comprehensive look at our tax system. In the near term though, we need to continue taking steps that move us toward being more competitive, including trading off an increase in cigarette tax for a decrease in income taxes would be incredibly timely.

Third, we believe small businesses need help in offering health care plans to their workers. This is important both in addressing the number of uninsured in South Carolina and in addressing a small businesses' ability to compete. Currently small businesses are not allowed to band together and find the most affordable health care that's available to big businesses. They are also saddled with over 30 well-intentioned mandates that make the health care they can offer less affordable; we believe reform that brings flexibility on both fronts is vital and I ask you to join us in advancing reform.