

Testimony of

Dr. Fredrick C. Dunbar

June 4, 2003

STATEMENT OF DR. FREDERICK C. DUNBAR BEFORE THE U.S. SENATE COMMITTEE ON THE JUDICIARY HEARING ON SOLVING THE ASBESTOS LITIGATION CRISIS: S.1125 v THE FAIRNESS IN ASBESTOS INJURY RESOLUTION ACT OF 2003, ON WEDNESDAY JUNE 4, 2003

SECONDARY IMPACTS OF ASBESTOS LIABILITIES ON WORKERS, TAXPAYERS AND LOCAL COMMUNITIES? EXECUTIVE SUMMARY

Asbestos-related bankruptcies and the associated layoffs will have ripple effects that harm many groups beyond company stockholders. Workers will suffer in many ways, including temporary or long-term unemployment, lower long-term earnings, and inadequate and/or more expensive interim health coverage. Taxpayers will bear the financial burden of publicly funded retraining programs and increased unemployment insurance payments. Residents and local businesses in affected communities will suffer as a result of reduced economic activity, lower property values, and reduced local tax revenues.

Workers laid-off have difficulty finding new jobs, and new jobs tend to be lower-paying. After two to three years, 11% remain unemployed and 14% drop out of the labor force. Wages for re-employed workers are between 3-17% lower at new jobs even two to three years after plant closure or layoff. Unemployment insurance typically accounts for less than 50% of the average wages for a displaced worker.

In addition to lost wages, laid-off workers face additional costs. Studies suggest about 40% of displaced workers undertake retraining, with costs ranging from \$2,000-\$3,000 per worker. A previous study by Sebago Associates estimates that asbestos liabilities have resulted in 52,000-60,000 displaced workers; these figures translate into \$44-\$76 million in retraining costs to date, borne either by the workers or public agencies. Laid-off workers face higher health insurance costs, averaging about \$300 per month. For the 72% of the estimated 52,000-60,000 laid-off workers who participate in employer-sponsored health insurance, this translates into an overall loss of \$26-\$30 million to date over the transition period of unemployment. Some workers will forego health insurance, incurring costs in the form of reduced health and reduced preventive care.

Taxpayers will suffer in several ways. They will cover increased costs required for uninsured health care and will pay for additional unemployment insurance. Based upon the estimate of 52,000-60,000 displaced workers and an average duration of 14.6 weeks, the additional cost to taxpayers would be about \$80 million to date.

Residents of communities where asbestos-related layoffs occur will also be affected:

1. Closure of local plants has the indirect effect of reducing plant expenditures in the region.
2. Reductions in local payrolls further reduce regional spending, creating a "multiplier" effect on the economy of the community.

On average, about five to eight additional jobs are lost through the "indirect" and "multiplier" effects for every ten jobs lost directly by the plant closure. When these multiplier effects are scaled to a nationwide impact, the result is that, to date, we estimate \$0.6 to \$2.1 billion in costs in the adversely affected communities, in addition to those reported by Sebago Associates.

In addition to losses in employment, asbestos-related layoffs cause the local economy to suffer reductions in regional output of goods and services, reductions in personal income, and reductions in population. Reductions in local economic activity will also lower all local residents' property values. Property tax revenues will decline more than population, putting greater stress on the cost of local public services such as education and public safety.

TABLE OF CONTENTS

I. INTRODUCTION AND OBJECTIVES	4
II. CHARACTERISTICS OF FIRMS FACING ASBESTOS LIABILITIES	4
III. CHARACTERISTICS OF WORKERS AT FIRMS AFFECTED BY ASBESTOS LIABILITIES	6
IV. ADDITIONAL COSTS ASSOCIATED WITH WORKER DISPLACEMENT: RETRAINING	6
V. ADDITIONAL COSTS ASSOCIATED WITH WORKER DISPLACEMENT: HEALTH INSURANCE	7
VI. ADDITIONAL COSTS ASSOCIATED WITH WORKER DISPLACEMENT: UNEMPLOYMENT INSURANCE	8

VII. COSTS BORNE BY LOCAL COMMUNITIES	9
VIII. COSTS BORNE BY LOCAL COMMUNITIES: REDUCED REGIONAL INCOME AND EMPLOYMENT	9
IX. COSTS BORNE BY LOCAL COMMUNITIES: REDUCED REGIONAL INCOME AND EMPLOYMENT	10
X. COSTS BORNE BY LOCAL COMMUNITIES: FALLING REAL ESTATE VALUES	11
XI. COSTS BORNE BY LOCAL COMMUNITIES: LOCAL SALES AND PROPERTY TAXES	11
XII. CONCLUSIONS	12
SOURCES	14

I. INTRODUCTION AND OBJECTIVES

Numerous studies have looked at the direct (or first-order) costs of asbestos litigation. A previous study by the RAND Institute (Carroll et al. 2002) found:

1. Over 600,000 people had filed asbestos claims by the end of 2000.
2. Asbestos claims have risen sharply in recent years.
3. \$54 billion has been spent on asbestos litigation to date.
4. Transaction costs make up more than half of this spending.

This study aims to:

1. Assess the impacts of asbestos-related bankruptcies and the associated layoffs on workers and taxpayers
2. Investigate the additional economic impacts of plant closings on regional economies, local property owners, and local taxpayers

II. CHARACTERISTICS OF FIRMS FACING ASBESTOS LIABILITIES

A recent Sebago Associates study (Stiglitz, Orzsag, & Orzsag, 2002, hereafter "Sebago Study") finds that between 52,000 and 60,000 jobs have been lost due to asbestos related bankruptcies to date. Sixty-one companies with significant asbestos liabilities have filed for bankruptcy. The pace of bankruptcy filings has accelerated dramatically since 1998. Bankruptcy filings may have a "domino effect" on other defendants, increasing the asbestos-related costs for the remaining firms facing liabilities.

Our examination of 992 asbestos defendants and bankrupt companies as presented in a Prudential financial report (2002) reveals that, while asbestos liabilities affect all industries, the non-durables manufacturing sector has been hit the hardest so far:

1. Over 46% of defendants are in the non-durables manufacturing industry, including producers of insulation and construction products.
2. Almost all bankruptcies (90%) occurred at firms in the non-durables manufacturing sector.

Affected firms are located all across America. The Sebago study reports that 50 bankrupt companies have facilities in 47 states. A sample of plant closures and mass layoffs at firms facing major asbestos liabilities reveals:

1. At least 22 states had a plant that closed;
2. Plant closures tended to be concentrated in small communities;
3. The average population of a community facing a plant closure was 138,000;
4. The median population of these towns was approximately 20,000.

So far, small communities have experienced most of the mass layoffs. Re-employment opportunities may be limited in these smaller communities, and thus the effects of the layoffs on workers and the local economy may be magnified.

An Institute for International Economics study (Hufbauer & Goodrich, 2001) describes the characteristics of a typical worker who lost a job due to a plant closing or mass layoff in the manufacturing industry between 1979 and 1999.

An average laid-off worker:

1. was in a blue-collar occupation;
2. had job tenure of six to seven years;
3. is a high-school graduate;
4. is 39 years old.

Displaced workers are not a completely homogenous population:

1. 37% of displaced workers are female;
2. 10% are ages 55-64; 14% are under 25;
3. 18% are minorities.

Between 1990 and 1997, the mean weekly wage of a displaced worker in the non-durables manufacturing industry was \$506 prior to the layoff (see BLS Monthly Labor Review, 1993, 1995, 1999, 2001).²

III. CHARACTERISTICS OF WORKERS AT FIRMS AFFECTED BY ASBESTOS LIABILITIES

Many workers have difficulty finding new jobs after a plant closure or mass layoff. After two to three years (see BLS Monthly Labor Review, 1993, 1999, 2001):³

1. 11% of workers remain unemployed;
2. 14% have dropped out of the labor force entirely;
3. 75% are re-employed.

Even those workers who find new jobs face difficulties. The average duration of unemployment for displaced workers in the non-durables manufacturing sector is ten weeks.³ However, between 22-26% of these workers are unemployed for more than six months. Wages for re-employed workers are between 3-17% lower at their new jobs, even two to three years after the plant closure or mass layoff.

Workers in the non-durables manufacturing industry are the group most affected by asbestos liabilities and tend to be unemployed longer and have lower replacement wages than the national average.

While, in the long term, worker salaries may return to their pre-lay-off levels, there are clearly substantial wage costs to individual workers in the short- and medium-run.

IV. ADDITIONAL COSTS ASSOCIATED WITH WORKER DISPLACEMENT: RETRAINING

In addition to lost wages, workers face many other costs when they are laid-off. Many workers will require additional training as they seek re-employment. Approximately 60% of re-employed workers displaced from non-durables manufacturing jobs move to a different industry (see BLS Monthly Labor Review, 1999 and 2001). These workers may be particularly likely to require additional training. A study of manufacturing workers in New England found that 42% of displaced workers undertook some kind of retraining (Kodrzycki, 1997).

Estimates of the average cost to retrain workers range between about \$2,000 and \$3,000. It cost the Commonwealth of Massachusetts \$2,925 to retrain a displaced worker in 2001. The State of North Dakota spent \$2,039 retraining a dislocated worker in 2000-2001.

If 42% of the 52,000-60,000 workers estimated in the Sebago Study to have lost jobs due to asbestos-related bankruptcies undertake training, the total cost will range from \$44-\$76 million. Costs of this training are borne by both workers and employers; through government-sponsored training programs, taxpayers also bear some of the burden.

V. ADDITIONAL COSTS ASSOCIATED WITH WORKER DISPLACEMENT: HEALTH INSURANCE

Displaced workers may also face additional costs as they lose subsidized health insurance benefits. Nationally, on average, over 72% of workers participate in employer-sponsored group health insurance programs (see BLS Monthly Labor Review, 1993, 1999, 2001).³ For the average displaced worker, employer-sponsored health insurance is substantially less expensive than individual coverage. The monthly cost to insure a family of four under an individual health plan is \$464 (the average National Blue Cross Blue Shield rate, over the period 1990-2002).⁴ The monthly cost for a family under an employer-sponsored plan is \$162 (35% of the individual plan cost, National Compensation Survey, 2000). For workers losing group health care, individual plans cost \$302 more each month.

Again using the Sebago Study estimates of 52,000-60,000 jobs lost to date, we estimate the collective monetary cost to workers from the loss in health insurance benefits sums to be between \$26 and \$30 million. We calculate these estimates by multiplying the number of lost jobs by the employer-sponsored health insurance participation rate (72%), excess individual monthly plan costs (\$302) and the average duration of unemployment (2.34 months).

This \$26-\$30 million only measures the cost during the transition period of unemployment and approximately 13.6% of re-employed workers do not receive health insurance benefits at their new jobs (see BLS Monthly Labor Review, 1993, 1999, 2001); for these workers, the costs will be even higher.³ While some displaced workers continue to purchase health care, other workers will choose not to continue their health insurance coverage. Under COBRA, employers are required to offer displaced employees the opportunity to continue to purchase health insurance coverage, with employees paying up to 102% of the group total premium (Duchon, Schoen, Doty, Davis, Strumpf, & Bruegman, 2001). Despite these regulations, less than 20% of laid-off workers choose to participate in COBRA (Neuschler & Taylor, 2002).

While some individuals may choose to purchase private health insurance outside of COBRA plans, these numbers suggest that a substantial fraction of displaced workers remain uninsured while unemployed. Costs of going without insurance are numerous, though difficult to quantify. There are costs to the health of workers and their families: approximately 1/3 of the uninsured report not filling prescriptions, not obtaining medical tests, and not going to the doctor when sick (The Commonwealth Fund, 2001). The uninsured are two to four times more likely to use expensive emergency care rather than preventive care, using the resources and increasing waiting times in emergency room facilities (ACP-ASIM, 1999). Many of the uninsured are not able to pay medical bills and this drives up hospital and insurance costs for the rest of society. When displaced workers lose insurance coverage, their families, communities, and the rest of society all bear some of the costs.

VI. ADDITIONAL COSTS ASSOCIATED WITH WORKER DISPLACEMENT: UNEMPLOYMENT INSURANCE

Displaced workers can offset some of the costs of lost wages with unemployment insurance. Only 49% of displaced workers from the manufacturing industry take up unemployment insurance (Employee Benefit Research Institute, 2002). Of the manufacturing workers who received benefits, over 41% exhausted their available benefits before finding re-employment. The average national duration of unemployment insurance is 14.6 weeks (DOLETA, 1990) and

2000).⁵

The total cost to taxpayers of unemployment insurance benefits for workers displaced due to asbestos liabilities to date is approximately \$80 million. While unemployment insurance helps to ease the burden of unemployment for displaced workers, it is only a partial offset of their lost income. Average benefit is less than 50% of the average weekly wages of a displaced worker (DOLETA, 1990 ;V 2000).⁵

Monthly private health insurance premiums for a family of four are over 50% of an average worker's unemployment benefit.

VII. COSTS BORNE BY LOCAL COMMUNITIES

Local communities bear additional costs due to plant closings and asbestos-related layoffs. In addition to direct effects from plant closings, other local firms lose business through the indirect and induced impacts of plant closures (the "multiplier effect"): Indirect effects are the impacts of reduced plant spending in the community, and induced effects are the impacts of reduced worker spending in the community. These impacts affect the local community in several ways through reductions in regional income and employment, falling property values, and effects on local sales and property tax revenues and local government expenditures.

VIII. COSTS BORNE BY LOCAL COMMUNITIES: REDUCED REGIONAL INCOME AND EMPLOYMENT

As local plants close and lay off workers, they cut back purchases from other local businesses. Laid-off workers also cut back spending. These indirect and induced impacts can be estimated using a regional economic model.

The estimates are based on a "state-of-the-art" regional impact model developed by Regional Economic Models, Inc. (REMI). REMI can be used to estimate all of these effects. We used REMI to estimate the local economic impacts in an average case, due to asbestos liabilities. Our example focuses on Licking County, Ohio.

Although the magnitude of effects depends on the characteristics of the local community, the Licking County region had a typical multiplier value in a sample of communities with asbestos-related layoffs. Thus, results can be extrapolated to all affected communities. For example, in 2000, Owens-Corning laid off 275 workers from its Granville plant in Licking County, Ohio.

Licking County, Ohio (U.S. Census Bureau 2002) has:

1. Population of 145,491 in 2000;
2. 58,760 households in 2000;
3. Per capita income of \$20,581 in 1999.

In comparison to the direct impacts, REMI model predicts about 225 additional jobs lost due to indirect and induced effects.

Indirect/induced impacts occur in many sectors, for example, we estimated:

1. 77 jobs lost in local services;
2. 60 jobs lost in local retail trade;
3. 48 jobs lost in local construction;

In total, we estimated 500 lost jobs in Licking County, Ohio due to layoff in 2000.

IX. COSTS BORNE BY LOCAL COMMUNITIES: REDUCED REGIONAL INCOME AND EMPLOYMENT

REMI model also predicts impacts on regional output of goods and services, regional income, and population. We estimated that total regional output would be reduced by over \$30 million annually. More specifically:

1. \$21 million due directly to laid-off workers;
2. \$4.5 million in goods and services supplied to the plant;
3. \$4.5 million in general goods and services to the population.

This corresponds to a total reduction in regional income of about \$15-\$20 million annually.

For every ten workers laid off directly, our model predicts that approximately five people relocate out of the county, due mostly to reduced wage levels in the county. These impacts occur in local communities across the country. Since the "multipliers" vary by community, the impacts will be different for the various communities facing layoffs due to asbestos-induced bankruptcies.

X. COSTS BORNE BY LOCAL COMMUNITIES: FALLING REAL ESTATE VALUES

Plant closures and asbestos-related layoffs will also affect owners of real estate in local communities. Jud and Winkler (2002) show that property values are dependent on local incomes and population. A 10% reduction in local per capita income results in a 2% decline in local real estate prices (other factors held constant), and a 10% reduction in local population results in an 11% decline in local real estate prices (other factors held constant). In our example of Licking County, Ohio, we estimate 500 jobs were lost after Owens-Corning's 275-worker layoff in 2000.

In response, we estimate that both population and per capita income each fell by approximately 0.1%. The median home value in Licking County, Ohio in 2000 was \$110,700, and there were 58,760 housing units in Licking County in 2000.

Applying multipliers from Jed and Winkler indicates total local real estate values would have fallen by \$5-\$10 million.

XI. COSTS BORNE BY LOCAL COMMUNITIES: LOCAL SALES AND PROPERTY TAXES

Plant closings also will lead to reductions in local tax receipts. The precise effects on local taxes depends on the community's tax structure, including the tax rates and the definitions of the tax base. Several factors cause the decline in local tax receipts:

1. Lower real estate values;
2. Reduced population;
3. Reduced spending from remaining residents due to falling incomes.

These declines in tax revenues are likely to outweigh the declines in local government spending due to reduced population. These effects shift some of the cost burdens onto local governments.

XII. CONCLUSIONS

Asbestos liabilities impose costs not just on shareholders, but on many other groups, including workers, taxpayers, and local communities affected by asbestos-related plant closings. Workers in bankrupt firms are hurt through numerous direct and indirect channels. These costs include unemployment, lost wages, lost health care, and reduced wages due to bearing the burden of retraining costs. Not only did laid-off workers suffer the impact, but the costs were also passed onto taxpayers across the country.

Local communities can also be hard hit. Other local businesses are hurt as industry spending falls, local per capita income falls, population declines, and local property values fall.

Finally, local governments face a decline in revenues, which is likely to be much greater than a decline in costs. These costs and impacts will continue to expand as the volume of asbestos litigation grows.

NOTES

1. List of asbestos-related bankruptcies obtained from Committee on the Judiciary United States Senate, Hearing on Asbestos Litigation (2002), Statement of Jennifer L. Biggs, FCAS, MAAA Chairperson, Mass Torts Subcommittee American Academy of Actuaries, September 25. A sample of approximately 90 plant closing/mass layoffs was created based on WARN reports from various state labor departments. Population estimates based on the 2000 U.S. Census. A detailed list of plant closings and mass layoff events used in this analysis is available upon request.
2. In 2002 dollars; dollars have been inflated and discounted using average annual inflation rates and T-bill rates, respectively. The reported wage is an un-weighted average of the mean earnings of a displaced worker in the non-durables manufacturing industry from specified years.
3. Calculated using data from BLS Monthly Labor Review 1993, 1995, and 2001. The reported values are un-weighted averages across these years.
4. In 2002 dollars; average monthly premium quotes obtained from Blue Cross Blue Shield websites assuming non-corporate coverage and age of 40 years for subscriber and spouse. Family rates assume one spouse and two dependent children of age 10. For detailed notes, see NERA table: "Blue Cross, Blue Shield Monthly Premiums by State," available upon request.
5. Un-weighted average of duration and value of unemployment insurance for all states from 1990 to 2000.

SOURCES

American College of Physicians v American Society of Internal Medicine. (1999). No Health Insurance? It's Enough to Make You Sick v Scientific Research Linking the Lack of Health Coverage to Poor Health, November 30.

Blue Cross Blue Shield websites for various states. See NERA table: "Blue Cross Blue Shield Monthly Premiums by State" for detailed sources.

Bureau of Labor Statistics Displaced Workers Surveys (1984 v 2000).

Carroll, S. J., D. Hensler, A. Abrahamse, J. Gross, M. White, S. Ashwood, et al. (2002). Asbestos Litigation Costs and Compensation, An Interim Report, Rand Institute for Civil Justice.

Committee on the Judiciary United States Senate, Hearing on "Asbestos Litigation," Statement of Jennifer L. Biggs, FCAS, MAAA Chairperson, Mass Torts Subcommittee American Academy of Actuaries, September 25, 2002, B62.

Commonwealth of Massachusetts FY01 (PY00) Annual Report v Adult, Dislocated Worker and Youth Activities Workforce Investment Act of 1998, Title I-B. (2001).

Duchon, L., C. Schoen, M. M. Doty, K. David, E. Strumpf, & S. Bruegman. (2001). Security Matters: How Instability in Health Insurance Puts U.S. Workers at Risk, The Common Wealth Fund, December.

Gardner, J. M. (1993). Recession Swells Count of Displaced Workers, Bureau of Labor Statistics Monthly Labor Review, June.

_____. (1995). Worker Displacement: A Decade of Change. Bureau of Labor Statistics Monthly Labor Review, April.

Helwig, R. (2001). Worker Displacement in A Strong Labor Market, Bureau of Labor Statistics Monthly Labor Review, June.

Hipple, S. (1999). Worker Displacement in the Mid-1990s, Bureau of Labor Statistics Monthly Labor Review, July.

Hufbauer, G. C. & Goodrich, B. (2001). Steel: Big Problems, Better Solutions, International Economic Policy Briefs, July.

Jud, G. Donald and Daniel T. Winkler (2002). "The Dynamics of Metropolitan Housing Prices." Journal of Real Estate Research, Volume 23 (Nos. 1-2), January-April, p. 29-45.

Kodrzycki, Y.K. (1997). Training Programs for Displaced Workers: What Do Accomplish?, New England Economic Review, May/June.

National Compensation Survey (2000).

Neuschle, E. & Taylor, L. (2002). Covering Displaced Workers and Their Children: Issues and Alternatives, Based on an Institute for Health Policy Solutions Round-Table held November 1, 2001, January.

North Dakota Workforce Investment Act Annual Report ;V Revised Edition, July 2000 ;V June 2001. (2001).

Prudential Financial. (2002). Asbestos Litigation ;V A Problem Without A Solution, May 6.

Stiglitz, J. E., Orszag, J. M., Orszag, P. R. (2002). The Impact of Asbestos Liabilities on Workers in Bankrupt Firms, Sebago Associates, December.

U.S. Census Bureau. 2002. State and County QuickFacts: Licking County, Ohio. Retrieved February 11, 2003 from <http://quickfacts.census.gov/qfd/states/39/39089.html>.

U.S. Department of Labor Employment & Training Administration (DOLETA) Claims Summary for State Programs. Retrieved December 15, 2002 from <http://workforcesecurity.doleta.gov/unemploy/claimssum.asp>.

Worker Adjustment and Retraining Notification (WARN) listing from various state labor departments (AL, CA, CT, FL, GA, IL, IA, KS, KT, MS, MD, MN, SC, TX, VA, WI).