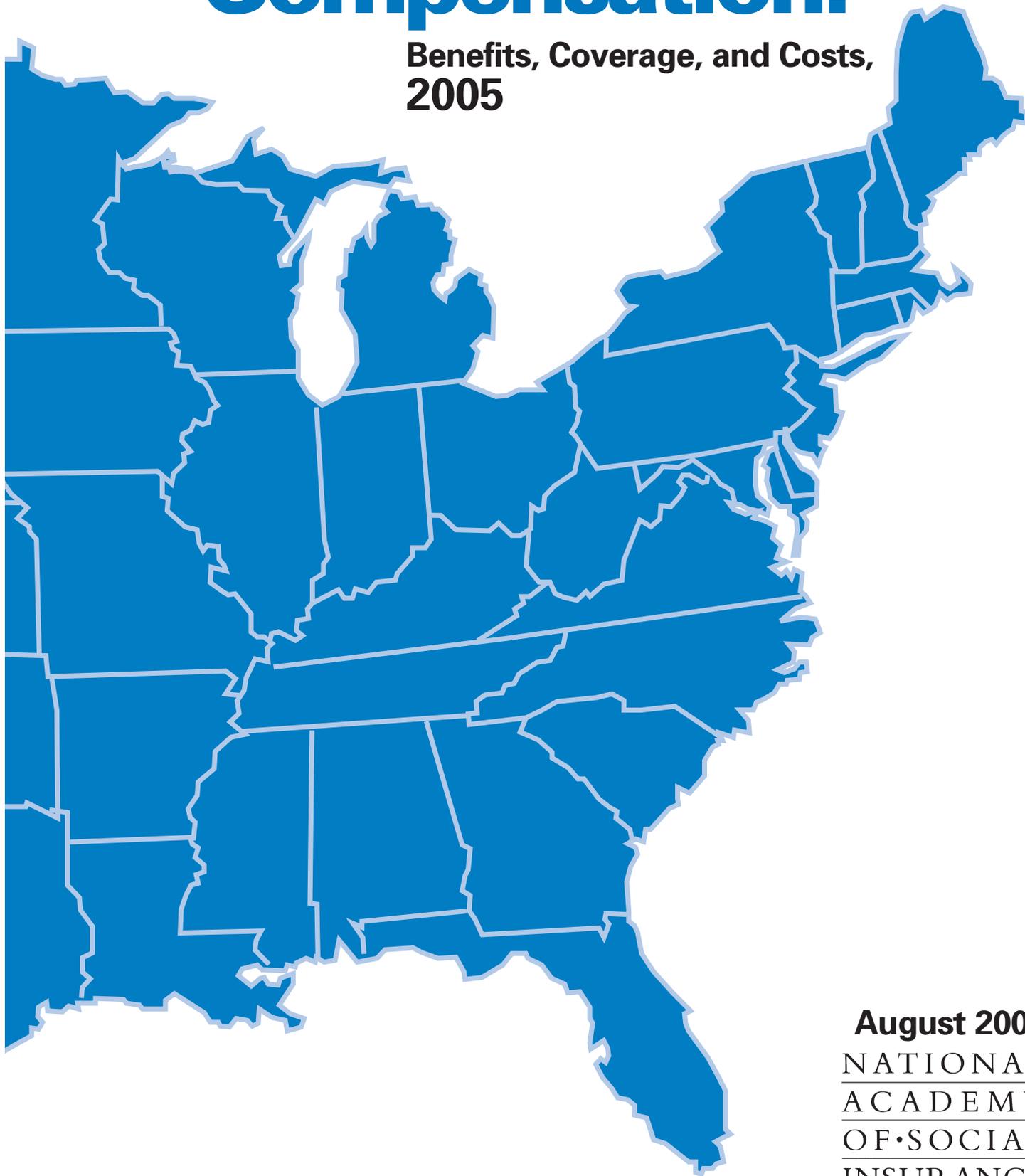


Workers' Compensation:

Benefits, Coverage, and Costs,
2005



August 2007
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The Academy convenes steering committees and study panels that are charged with conducting research, issuing findings and, in some cases, reaching recommendations based on their analyses. Members of these groups are selected for their recognized expertise and with due consideration for the balance of disciplines and perspectives appropriate to the project. The findings and any recommendations are those of the Study Panel and do not represent an official position of the National Academy of Social Insurance or its funders.

This research report presents new data and does not make recommendations. It was prepared with the guidance of the Workers' Compensation Steering Committee and the Study Panel on National Data on Workers' Compensation. In accordance with procedures of the Academy, it has been reviewed by a committee of the Board for completeness, accuracy, clarity, and objectivity.

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by

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with advice of the

**Study Panel on National Data on
Workers' Compensation**

August 2007

**NATIONAL
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Washington, DC**

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Highlights

This report provides a benchmark of the benefits and costs of workers' compensation to facilitate policy-making and comparisons with other social insurance and employee benefit programs. Workers' compensation pays for medical care, rehabilitation and cash benefits for workers who are injured on the job or who contract work-related illnesses. It also pays benefits to families of workers who die of work-related causes. Each state has its own workers' compensation program.

Need for this Report

The lack of uniform reporting of states' experiences with workers' compensation makes it necessary to piece together data from various sources to develop estimates of benefits paid, costs to employers, and the number of workers covered by workers' compensation. Unlike other U.S. social insurance programs, state workers' compensation programs have no federal involvement in financing or administration. And, unlike private pensions or employer-sponsored health benefits that receive favorable federal tax treatment, no federal laws set standards for "tax-qualified" plans or impose any reporting requirements. Consequently, states vary greatly in the data they have available to assess the performance of workers' compensation programs.

For more than forty years, the research office of the U.S. Social Security Administration produced national and state estimates of workers' compensation benefits, but that activity ended in 1995. In response to requests from stakeholders and scholars in the workers' compensation field, the National Academy of Social Insurance took on the challenge of continuing that data series. This is the Academy's tenth annual report on workers' compensation benefits, coverage, and costs. This report presents new data on developments in workers' compensation in 2005 and updates estimates of benefits, costs, and coverage for the years 1996–2004. The revised estimates in this report replace estimates in the Academy's prior reports.

Target Audience

The audience for the Academy's reports on workers' compensation includes journalists, business and labor leaders, insurers, employee benefit specialists, federal and state policymakers, and researchers in

universities, government, and private consulting firms. The data are published in the *Statistical Abstract of the United States* by the U.S. Census Bureau, *Injury Facts* by the National Safety Council, *Employee Benefit News*, which tracks developments for human resource professionals and *Fundamentals of Employee Benefit Programs* from the Employee Benefit Research Institute. The U.S. Social Security Administration publishes the data in its *Annual Statistical Supplement to the Social Security Bulletin*. The federal Centers for Medicare & Medicaid Services use the data in their estimates and projections of health care spending in the United States. The National Institute for Occupational Safety and Health uses the data to track the cost of workplace injuries in the United States. In addition, the International Association of Industrial Accident Boards and Commissions (the organization of state and provincial agencies that oversee workers' compensation in the United States and Canada) uses the information to track and compare the performance of workers' compensation programs in the United States with similar systems in Canada.

The report is produced with the oversight of the members of the Academy's Study Panel on National Data on Workers' Compensation, who are listed in the front of this report. The Academy and its expert advisors are continually seeking ways to improve the report and to adapt estimation methods to new developments in the insurance industry and in workers' compensation programs.

Workers' Compensation and Other Disability Benefits

Workers' compensation is an important part of American social insurance. As a source of support for disabled workers, it is surpassed in size only by Social Security disability insurance and Medicare. Workers' compensation programs in the fifty states, the District of Columbia, and federal programs paid \$55.3 billion in benefits in 2005. Of the total, \$26.2 billion was for medical care and \$29.1 billion was for cash benefits (Table 1).

Workers' compensation differs from Social Security disability insurance and Medicare in important ways. Workers' compensation pays for medical care for work-related injuries beginning immediately after the injury occurs; it pays temporary disability benefits after a waiting period of three to seven days; it pays

Table 1**Comparison of Workers' Compensation Benefits*, Coverage, and Costs**, Total United States, 2004-2005, Summary**

Aggregate Amounts	2004	2005	Change In percent
Covered workers (in thousands)	125,863	128,141	1.8
Covered wages (in billions)	4,953	5,212	5.2
Workers' compensation benefits paid (in billions)	\$ 56.1	\$ 55.3	-1.4
Medical benefits	\$26.4	\$26.2	-0.5
Cash benefits	\$29.7	\$29.1	-2.1
Employer costs for workers' compensation (in billions)	\$86.8	\$88.8	2.3
Amount per \$100 of covered Wages			In amount
Benefits paid	\$1.13	\$1.06	-\$0.07
Medical payments	\$0.53	\$0.50	-\$0.03
Cash payments to workers	\$0.60	\$0.56	-\$0.04
Employer costs	\$1.75	\$1.70	-\$0.05

Figures are rounded to nearest digit

* Benefits are payments in the calendar year to injured workers and to providers of their medical care.

** Costs are employer expenditures in the calendar year for workers' compensation benefits, administrative costs, and/or insurance premiums. Costs for self-insuring employers are benefits paid in the calendar year plus the administrative costs associated with providing those benefits. Costs for employers who purchase insurance include the insurance premiums paid during the calendar year plus the payments of benefits under large deductible plans during the year. The insurance premiums must pay for all of the compensable consequences of the injuries that occur during the year, including the benefits paid in the current as well as future years.

Source: National Academy of Social Insurance estimates based on Tables 2, 8, 9, 11, 12 and D1.

permanent partial and permanent total disability benefits to workers who have lasting consequences of disabilities caused on the job; it pays rehabilitation and training benefits for those unable to return to pre-injury careers; and it pays benefits to survivors of workers who die of work-related causes. Social Security and Medicare, in contrast, pay benefits to workers with long-term disabilities of any cause, but only when the disabilities preclude work. Social Security begins after a five-month waiting period and Medicare begins twenty-nine months after the onset of medically verified inability to work. In 2005, Social Security paid \$85.4 billion in cash benefits to disabled workers and their dependents, while Medicare paid \$48.8 billion for health care for disabled persons under age 65 (SSA, 2006d and CMS, 2006).

Paid sick leave, temporary disability benefits, and long-term disability insurance for non-work-related injuries or diseases are also available to some workers. About 70 percent of private sector employees have sick leave or short-term disability coverage, while 30 percent have no income protection for temporary incapacity other than workers' compensation. Sick leave typically pays 100 percent of wages for a few weeks. Private long-term disability insurance that is financed, at least in part, by employers covers about 30 percent of private sector employees and is usually paid after a waiting period of three to six months, or after short-term disability benefits end. Long-term disability insurance is generally designed to replace 60 percent of earnings and is reduced if the worker receives workers' compensation or Social Security disability benefits.

Trends in Workers' Compensation Benefits and Costs

Total cash benefits to injured workers and medical payments for their health were \$55.3 billion in 2005, a 1.4 percent decline from \$56.1 billion in 2004. Medical payments declined by 0.5 percent from the prior year (\$26.2 billion in 2005 compared to \$26.4 billion in 2004), while cash benefits to injured workers declined by 2.1 percent, to \$29.1 billion from \$29.7 billion in the prior year (Table 1).

While benefits paid to workers and their medical providers fell, costs to employers rose by 2.3 percent in 2005 to \$88.8 billion. Costs for self-insured employers are the benefits they pay plus their administrative costs. For employers who buy insurance, costs are the premiums they pay in the year, plus benefits they pay under deductible arrangements in

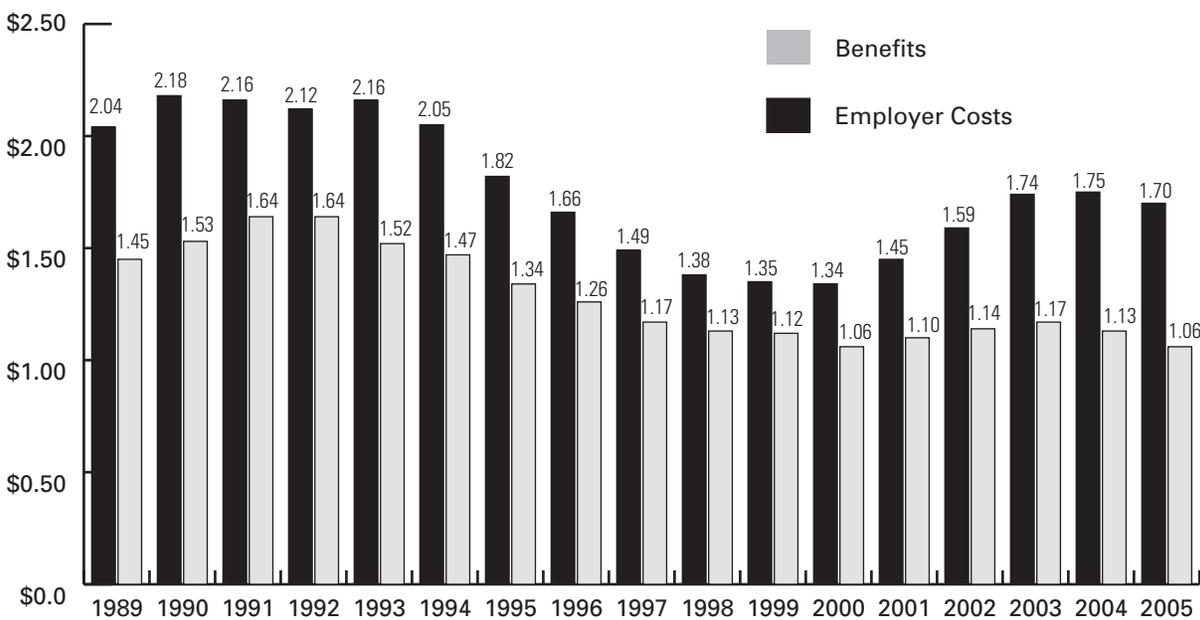
their insurance policies. From an insurance company's perspective, premiums received in a year are not expected to match up with benefits paid that year. Rather the premiums are expected to cover all future liabilities for injuries that occur in the year.

NASI measures of benefits and employer costs are designed to reflect the aggregate experience of two stakeholder groups – workers who rely on compensation for workplace injuries and employers who pay the bills. The NASI measures are not designed to assess the performance of the insurance industry or insurance markets. Other organizations analyze insurance trends.¹

For long-term trends, it is useful to consider workers' compensation benefits and employer costs relative to aggregate wages of covered workers. In a steady state,

Figure 1

Workers' Compensation Benefits* and Costs Per \$100 of Covered Wages, 1989–2005**



Source: National Academy of Social Insurance estimates.

* Benefits are payments in the calendar year to injured workers and to providers of their medical care.

** Costs are employer expenditures in the calendar year for workers' compensation benefits, administrative costs, and/or insurance premiums. Costs for self-insuring employers are benefits paid in the calendar year plus the administrative costs associated with providing those benefits. Costs for employers who purchase insurance include the insurance premiums paid during the calendar year plus the payments of benefits under large deductible plans during the year. The insurance premiums must pay for all of the compensable consequences of the injuries that occur during the year, including the benefits paid in the current as well as future years.

¹ Rating bureaus, for example, assess insurance developments in the states and advise regulators and insurers on premium changes.

one might expect benefits to keep pace with covered wages. This would be the case with no change in the frequency or severity of injuries and if wage replacement benefits for workers and medical payments to providers tracked the growth of wages in the economy generally. However, in reality benefits and costs relative to wages vary significantly over the years.

In 2005, aggregate wages of covered workers rose by 5.2 percent. This increase was the combined effect of 1.8 percent increase in covered workers – due to job growth in the economy – and a 3.3 percent increase in the workers’ average wages.

When measured relative to the wages of covered workers, both employer costs and benefits for workers fell in 2005. The cost to employers fell by five cents per \$100 of covered wages, to \$1.70 in 2005 from \$1.75 in 2004. Total payments on workers’ behalf fell by seven cents to \$1.06 per \$100 of covered wages: Medical payments fell by three cents per \$100 of wages to \$0.50, while wage-replacement benefits fell by four cents per \$100 of wages to \$0.56 (Table 1).

Figure 1 shows the trends in employer costs and in cash and medical benefits combined as a share of covered wages over the past 17 years. Benefits and

costs declined sharply from their peaks in the early 1990s, reached a low point in 2000, and rebounded somewhat after 2000. As a share of covered wages, benefits in 2005 returned to their low point of \$1.06 per \$100 of wages in 2000. Figure 2 shows the trend in medical and cash payments separately. The decline in benefits overtime has been largely in cash payments. In 2005, cash benefits per \$100 of wages were at their lowest point in the past 17 years, at \$0.56 per \$100 of wages.

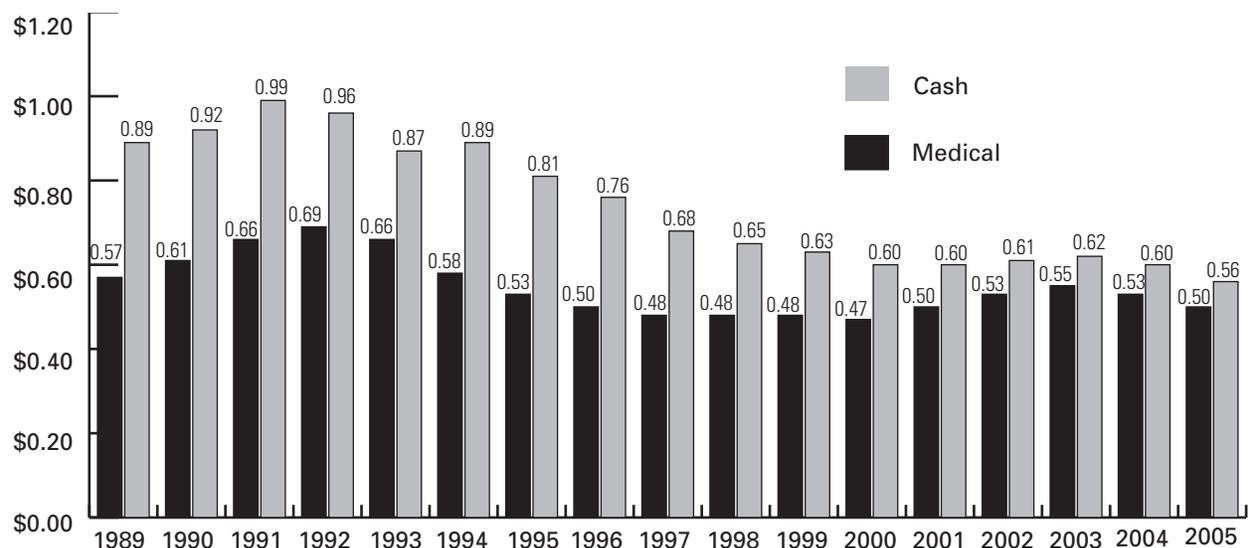
National Trends Outside of California

California’s workers’ compensation program has changed significantly over the past few years. Because it is a big state (with 13 percent of national payroll and 20 percent of total benefits in 2005), California’s large shifts in benefits and employer costs have altered the course of national trends. For that reason, it is useful to examine national trends outside of California.

Three developments in California were in sharp contrast with national trends elsewhere in 2005. First, California benefit payments declined sharply, while benefits elsewhere grew at a modest rate. Second, unlike in most other jurisdictions, California medical payments declined faster than cash benefits as

Figure 2

Workers’ Compensation Medical and Cash Benefits per \$100 of Covered Wages, 1989-2005



Source: National Academy of Social Insurance estimates.

reforms that were adopted in 2003 to curb medical spending took effect. Finally, unlike in the rest of the country, California employer costs declined in 2005. Table 1a summarizes national trends in 2005 outside California. When California is excluded, total benefit payments rose in 2005 by 1.7 percent (instead of the decline of 1.4 percent shown in Table 1). The growth in benefits outside California was due entirely to medical benefits. Medical payments outside California rose by 4.1 percent, while cash benefits to workers declined by 0.3 percent. Declining employer costs in California tended to offset an increase in

employer costs elsewhere. Outside California, employer costs rose by 6.5 percent. When California's decline in costs is included, total costs rose by 2.3 percent.

When changes outside of California are shown relative to aggregate wages of covered workers, medical payments per \$100 of covered workers were virtually unchanged at \$0.47 per \$100 of wages, cash payments to workers fell by three cents to \$0.51 per \$100 of covered wages, and employer costs fell by two cents to \$1.51 per \$100 of covered wages.

Table 1a

Comparison of Workers' Compensation Benefits*, Coverage, and Costs, in the United States without the state of California, 2004-2005, Summary**

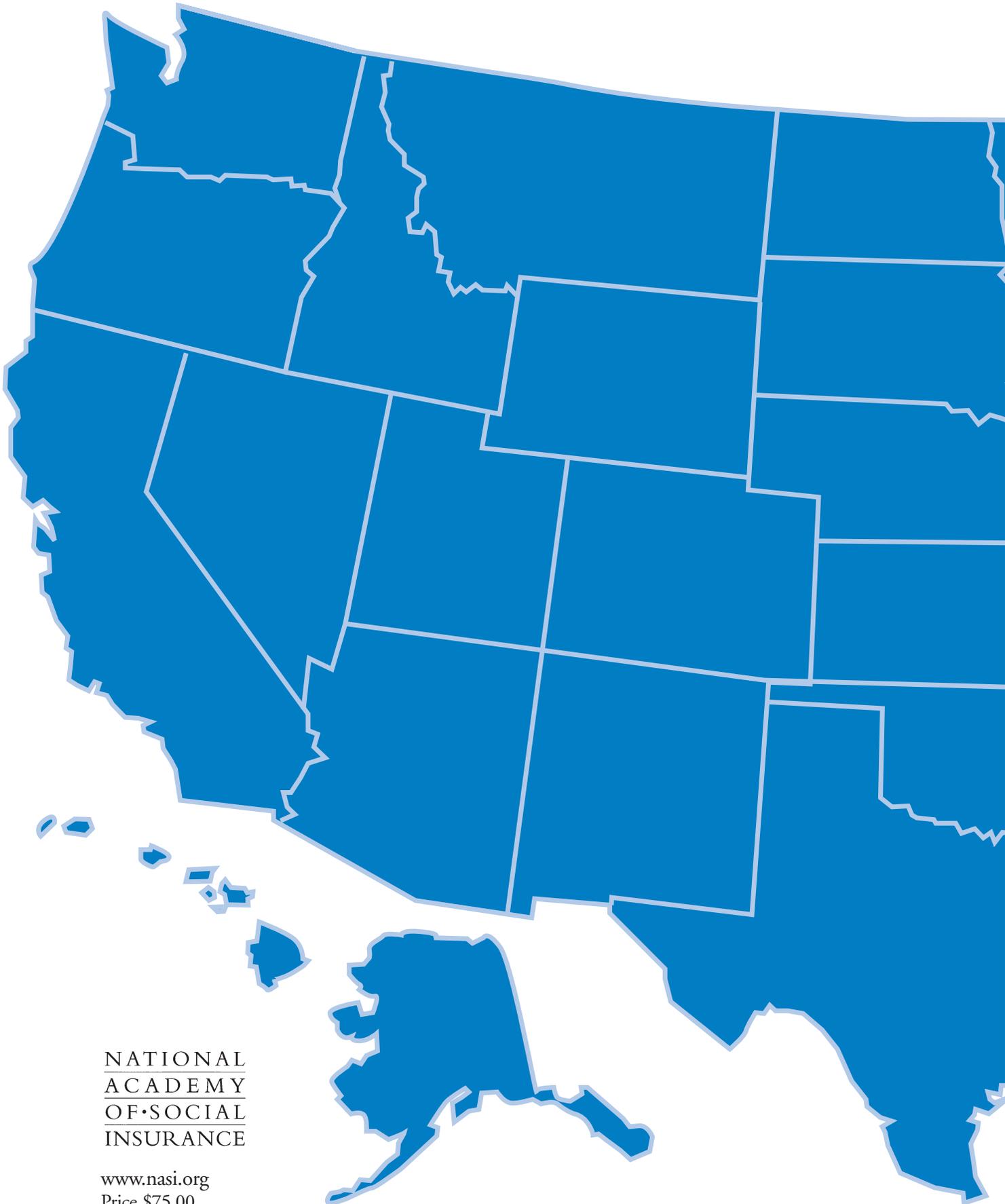
Aggregate Amounts	2004	2005	Change In percent
Covered workers (in thousands)	111,157	113,149	1.8
Covered wages (in billions)	4,317	4,541	5.2
Workers' compensation benefits paid (in billions)	\$43.6	\$44.4	1.7
Medical benefits	\$20.3	\$21.1	4.1
Cash benefits	\$23.3	\$23.3	-0.3
Employer costs for workers' compensation (in billions)	\$64.3	\$68.4	6.5
Amount per \$100 of covered Wages			In amount
Benefits paid	\$1.01	\$0.98	-\$0.03
Medical payments	\$0.47	\$0.47	\$0.00
Cash payments to workers	\$0.54	\$0.51	-\$0.03
Employer costs	\$1.49	\$1.51	\$0.02

Figures are rounded to nearest digit

* Benefits are payments in the calendar year to injured workers and to providers of their medical care.

** Costs are employer expenditures in the calendar year for workers' compensation benefits, administrative costs, and/or insurance premiums. Costs for self-insuring employers are benefits paid in the calendar year plus the administrative costs associated with providing those benefits. Costs for employers who purchase insurance include the insurance premiums paid during the calendar year plus the payments of benefits under large deductible plans during the year. The insurance premiums must pay for all of the compensable consequences of the injuries that occur during the year, including the benefits paid in the current as well as future years.

Source: National Academy of Social Insurance estimates based on Tables 2, 8, 9, 11, 12 and D1.



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