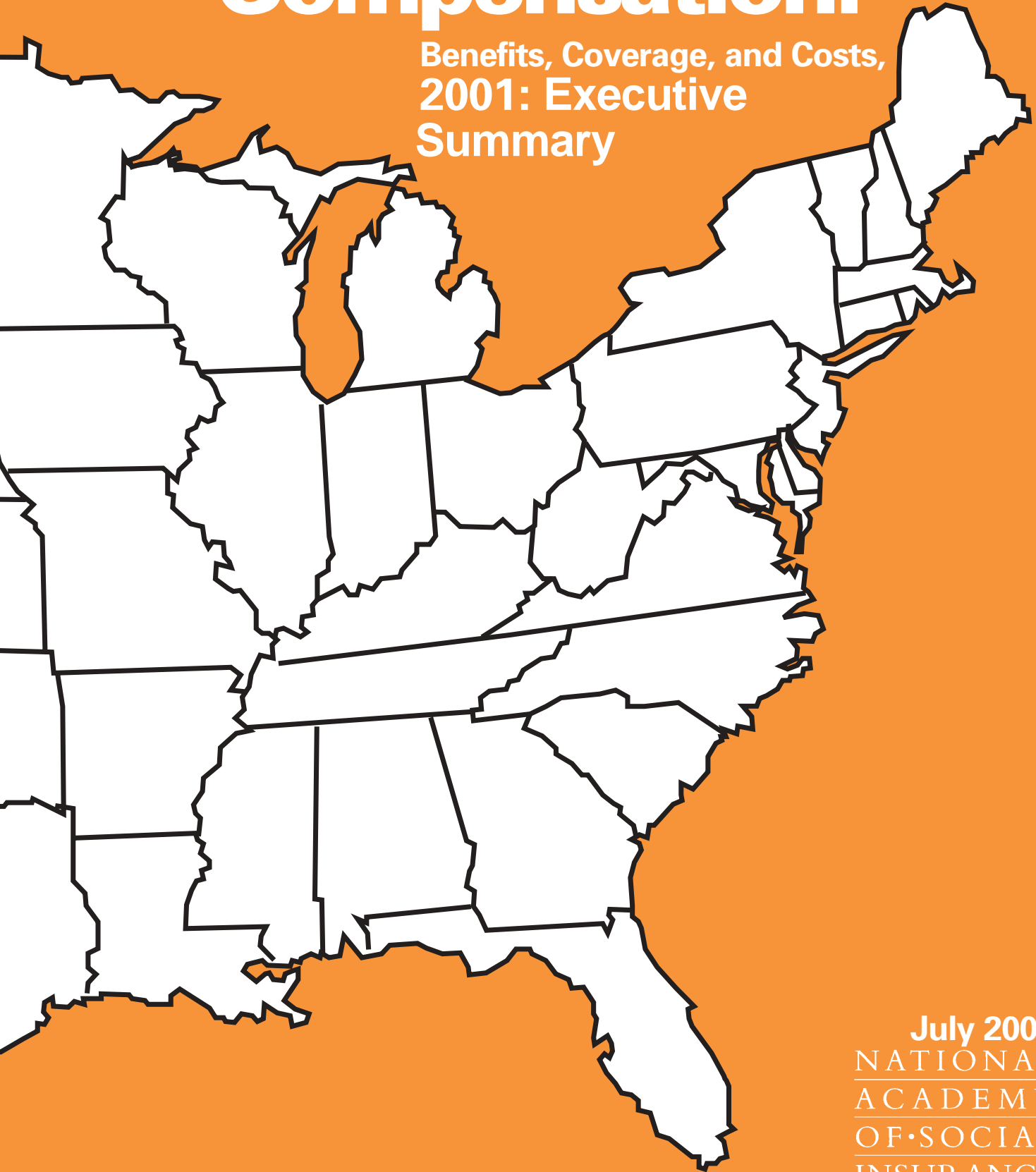


# Workers' Compensation:

Benefits, Coverage, and Costs,  
2001: Executive  
Summary



July 2003  
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This research report presents new data and does not make recommendations. It was prepared with the guidance of the Workers' Compensation Steering Committee and 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.

This project received financial support from the Social Security Administration, the Centers for Medicare & Medicaid Services, the Office of Workers' Compensation Programs of the U.S. Department of Labor, and Liberty Mutual Insurance Company. It also received in-kind support in data from the National Council of Compensation Insurance.

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# **Workers' Compensation:**

**Benefits, Coverage, and Costs,**

## **2001: Executive Summary**

*by*

Cecili Thompson Williams, Virginia P. Reno, and  
John F. Burton Jr.

*with advice of the*

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

*and the*

**Steering Committee on Workers' Compensation**

**July 2003**

**NATIONAL  
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INSURANCE  
Washington, DC**



# Preface

Because workers' compensation statutes are enacted and administered at the state level, it is difficult to get a complete picture of national developments. Until 1993, the U.S. Social Security Administration (SSA) produced the only comprehensive national data on workers' compensation benefits and costs. For more than four decades, SSA's Office of Research, Evaluation, and Statistics filled part of the void in workers' compensation data by piecing together information from various sources to estimate the number of workers covered and, for each state and nationally, the aggregate benefits paid. SSA discontinued the series in 1995 after publishing data for 1992–93.

The SSA data on workers' compensation were a valuable reference for employer groups, insurance organizations, unions, and researchers, who relied on them as the most comprehensive and objective information available. Users of the data turned to the National Academy of Social Insurance as a reliable and independent source to continue and improve upon the data series. The need to continue the series remains particularly urgent as workers' compensation programs are changing rapidly.

In February 1997, the Academy received start-up funding from The Robert Wood Johnson Foundation to launch a research initiative in workers' compensation with its first task to develop methods to continue the national data series. Additional funds have been secured from the Social Security Administration, the Centers for Medicare & Medicaid Services, the Liberty Mutual Insurance Company, the Workers Compensation Research Institute, and the Labor Management Group. In addition, the National Council on Compensation Insurance provided access to important data for the project. Without support from these sources, continuing this vital data series would not have been possible.

To set its agenda and oversee its activities in workers' compensation, the Academy convened the Workers' Compensation Steering Committee, listed on page iii. To provide technical expertise for the data report, it convened the Study Panel on National Data on Workers' Compensation, listed on page iv.

This is the sixth report the Academy has issued on workers' compensation national data. In December 1997, it published a report that extended the data series through 1995. That report was prepared by Jack Schmulowitz, a retired SSA analyst, who also provided the Academy with full documentation of the methods used to produce the estimates in that report. Subsequent reports published by the Academy through 2002 extended the data series through 2000. Those reports used the same basic methodology followed in prior reports but incorporated several significant innovations. In particular, the Academy reports:

- Provide state-level information separating medical and cash benefits (Mont et al. 1999);
- Place workers' compensation in context with other disability insurance programs (Mont et al. 1999);
- Compare the recent trends in the benefit spending for workers' compensation to those for Social Security disability insurance (Mont et al. 1999);
- Discuss the relative advantages and drawbacks of using calendar year benefits paid *vis-à-vis* accident year incurred losses to measure benefit trends (Mont et al. 1999 and refinements in this report);
- Estimate benefits paid under deductible provisions for individual states (Mont et al. 1999);
- Estimate coverage under workers' compensation programs at the state level (Mont et al. 2000);
- Present state-level estimates of the number of covered workers and total covered wages (Mont et al. 2001);
- Report estimates of benefits relative to total wages in each state (Mont et al. 2001);
- Provide information on special federal programs that are similar to workers' compensation, but are not included in national totals in the Academy's series (this report);
- Compare trends in workers' compensation claims frequency for privately insured employers with trends in incidence of work-related injuries reported to the Bureau of Labor Statistics (this report); and

- Provide more complete documentation of data collection methods and results, and of methods for estimating coverage, deductibles, and self-insured benefits and costs (this report).

This report benefited immeasurably from members of the Academy's Study Panel on National Data on Workers' Compensation, who gave generously of their time and expertise in advising on data sources, data collection, plans for presentation, and in carefully reviewing the draft report. We would like to especially acknowledge three members of the Study Panel: Barry Llewellyn, Senior Divisional Executive and Actuary with the National Council on Compensation Insurance, who provided the

Academy with data and underwriting reports and his considerable expertise on many data issues; Peter Barth, retired Professor of Economics at the University of Connecticut; and Leslie Boden, Professor of Public Health at Boston University, who assisted Academy staff with the self-insurance estimates. This report also benefited from helpful comments during Board review by Barbara Markiewicz, Patricia Owens, and Wayne Vroman.

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# Executive Summary

The purpose of the Academy's report is to provide policy-makers with a benchmark of the benefits and costs of workers' compensation to facilitate policy-making and comparisons with other social insurance programs. Workers' compensation pays for medical care 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.

Because no national system exists for uniform reporting of states' experiences with workers' compensation, it is 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 tax treatment, federal laws do not set standards for "tax-qualified" plans or impose any reporting requirements. Consequently, states vary greatly in their capacity and methods for assembling data on the performance of workers' compensation programs.

For more than forty years, the research office of the U.S. Social Security Administration had produced national and state estimates of workers' compensation benefits, but that activity ended in 1993. 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 sixth annual report on workers' compensation benefits, coverage, and costs. This report presents new data on developments in workers' compensation in 2001 and updates estimates of benefits, costs, and coverage for the years 1997–2000. The revised estimates in this report replace estimates in the Academy's prior report, *Workers' Compensation: Benefits, Coverage, and Costs, 2000 New Estimates*.

The audience of the Academy's reports on workers' compensation includes journalists; business and labor leaders; insurers; employee benefit specialists; federal and state policy-makers; 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; are used in the annual report of the National Safety Council, *Injury Facts*; and are reported in *Employee Benefit News*, which tracks developments for human resource professionals. The U.S. Social Security Administration publishes the data in its *Annual Statistical Supplement to the Social Security Bulletin* and uses the findings in its estimates of national social welfare expenditures in the United States. The federal Centers for Medicare & Medicaid Services (formerly the Health Care Financing Administration) use the data as part of 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 part of 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 performance of workers' compensation programs in the United States with similar systems in Canada.

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

## Background

Workers' compensation is an important component 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 \$49.4 billion in workers' compensation benefits in 2001. Of the total, \$22.0 billion were for medical care and \$27.4 billion were for cash benefits (Table 1).

Workers' compensation programs are undergoing changes. Total benefits rose at double-digit rates in the 1980s, and then declined in absolute dollar amounts and relative to wages of covered workers in the 1990s. In 2001, benefits and costs relative to

**Table 1****Workers' Compensation, 2001 Summary**

	2000	2001	Percent Change
Covered workers (in thousands)	127,141	126,972	-0.1
Covered wages (in billions)	\$ 4,495	4,604	2.4
Workers' compensation benefits paid (in billions)	\$ 47.7	\$ 49.4	3.5
Percent of benefits paid for medical care	43.9%	44.9%	2.4
Employer costs for workers' compensation (in billions)	\$ 59.2	\$ 63.9	8.0
Benefits per \$100 of covered wages	\$1.06	\$1.07	1.0
Employer costs per \$100 of covered wages	\$1.32	\$1.39	5.5
Benefits per covered worker	\$ 375	389	3.6
Employer costs per covered worker	\$ 466	504	8.1

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

covered wages rose for the first time since the early 1990s.

Workers' compensation differs from Social Security disability insurance and Medicare in important ways. Workers' compensation pays for medical care for work-related injuries immediately; it pays temporary disability benefits after a waiting period of three to seven days; and it pays permanent partial and permanent total disability benefits to workers who have lasting consequences of disabilities caused on the job. 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 work incapacity. In 2001, Social Security paid \$59.6 billion to disabled workers and their dependents, while Medicare paid \$29.7 billion for health care for disabled persons under age 65 (SSA 2002a and CMS 2003).

Some workers also have access to sick leave or long-term disability insurance benefits. Sick leave is the most common form of wage-replacement for short-term absences from work due to illness or injury of any cause. Benefits typically pay 100 percent of wages for a few weeks. About 30 percent of private sector workers have no income protection for temporary sickness or disability other than workers' compensation. Long-term disability insurance that is financed, at least in part, by employers covers about

one in four private sector employees. Long-term disability insurance benefits are 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.

## 2001 Developments

Total workers' compensation benefit payments of \$49.4 billion in 2001 were 3.5 percent higher than in 2000. When viewed relative to total wages of covered workers, benefits payments rose slightly in 2001: benefits per \$100 of covered wages rose from \$1.06 in 2000 to \$1.07 in 2001 (Table 1).

Employer costs for workers' compensation are premiums written for policies in the calendar year, payments made under deductible arrangements, and the benefits and administrative costs of self-insurers. Employer costs in 2001 were \$63.9 billion, an increase of 8.0 percent from \$59.2 billion in 2000. Relative to total wages of covered workers, employer costs increased to \$1.39 per \$100 of covered wages in 2001, up from \$1.32 per \$100 of covered wages in 2000.

The difference between benefits for workers and employer costs per \$100 of wages is accounted for by expenses such as administrative and loss adjustment costs, taxes, and contributions for special funds,

which can include the support of workers' compensation agencies.

A development in the 1990s that complicates the measurement of benefits and costs of workers' compensation is the growing use of large deductible policies. Under deductible policies, the insurer pays all of the workers' compensation insured benefits, but employers are responsible for reimbursing the insurers for those benefits up to a specified deductible amount. In return for accepting a policy with a deductible, the employer pays a lower premium. Our industry sources of data do not provide separate information on deductibles and many states lack data on deductible payments. Consequently, these benefits had to be estimated.

In 2001, workers' compensation covered 127.0 million workers, a decline of 0.1 percent from the 127.1 million workers covered in 2000 (Table 1). Total wages of covered workers were \$4.6 trillion in 2001, an increase of 2.4 percent from 2000. The slight decline in covered workers and slow growth in covered wages reflect the economic recession that began in March 2001 (NBER 2001). States' rules about who is covered by workers' compensation did not change between 2000 and 2001.

A total of 8,786 fatal work injuries occurred in 2001. They include 2,886 deaths of people at work that were caused by the September 11 terrorist attacks and 5,900 deaths from other causes. Workers' compensation benefits for families of workers killed in the terrorist attacks are likely to be reflected in benefit payments in 2002 and later. The Academy's brief, *Social Insurance for Survivors: Family Benefits from Social Security and Workers' Compensation*, describes payments available to families of workers killed at work.

This report for the first time includes data for federal programs that are similar to workers' compensation, but are not included in our national estimates of total benefits. The national workers' compensation totals in this report include programs of the fifty states and the District of Columbia, and federal laws that cover federal civilian employees, private employees under the Longshore and Harbor Workers' Compensation Act, and the portion of the Black Lung benefit program for coal miners with pneumoconiosis that is financed by employers. Other federal programs akin to workers' compensation covered in

this report, but not included in national totals are: veterans' compensation benefits of about \$15.8 billion in 2001; the portion of Black Lung benefits that are financed by federal funds; and smaller federally funded programs that compensate individuals who become ill or die due to harmful exposure in the production and testing of nuclear weapons.

## Longer Trends in Workers' Compensation Benefits and Costs

For the first time since 1992, workers' compensation benefits relative to covered wages rose slightly in 2001. This was the first time since 1993 that employer costs rose relative to covered wages (Figure 1). Benefits per \$100 of covered wages peaked in 1992 at \$1.68. The benefits of \$1.07 per \$100 of covered wages in 2001 are a decline of about 36 percent from that peak. Employer costs relative to covered wages in 2001 were about 36 percent lower than their peak in 1990, down from \$2.18 to \$1.39 per \$100 of covered wages.

The absolute dollar amount of benefits rose in 2001 for the fifth year in a row, while employer costs rose for the third consecutive year (Figure 2). The increases in benefits in 1997 through 2001 occurred after dollar benefits had fallen for four years (from 1993 through 1996). The increase in employer costs in 1999 through 2001 occurred after employer costs had declined for five straight years (from 1994 through 1998).

## Possible Reasons for Changes in Total Benefits and Costs

The increases in benefits and costs relative to covered wages in 2001 are due, in part, to slow growth in covered wages because of the economic recession that began in March 2001. Before then, the economy had experienced a ten-year expansion (NBER 2001). With the lagging economy in 2001, the number of workers covered by workers' compensation declined slightly and covered wages grew by just 2.4 percent, the smallest wage growth in more than a decade.

In the second half of the 1980s, workers' compensation benefits grew at double-digit rates. Between 1983 and 1992, total benefits grew by 170 percent, and medical benefits grew even faster, increasing from 36 to 42 percent of total benefits. Some believe that rising workers' compensation medical

benefits and costs reflected cost-shifting away from employment-based health insurance to workers' compensation as the regular health insurance system introduced managed care and other forms of cost controls in the 1980s (Burton 1997). Business representatives in the workers' compensation field believe that other factors contributed to the rise in workers' compensation medical costs. They believe that workers had an incentive to seek additional medical care to establish a higher degree of permanent disability status because contested claims are sometimes settled as a multiple of the amount of medical costs incurred. On the other hand, workers' representatives point to studies that indicate that substantial numbers of injured workers never file for workers' compensation benefits (Shannon and Lowe 2002; Biddle et al. 1998).

Declines in workers' compensation benefits in the mid-1990s may be due to many causes. In response to rising workers' compensation costs in the late 1980s and early 1990s, employers and insurers expanded the use of disability management techniques with the aim of improving return to work and lowering workers compensation costs.

At the same time, workers' compensation systems followed the general health care system in introducing managed care and other cost controls to reduce the growth in medical spending. Business representatives believe that the adoption of more objective

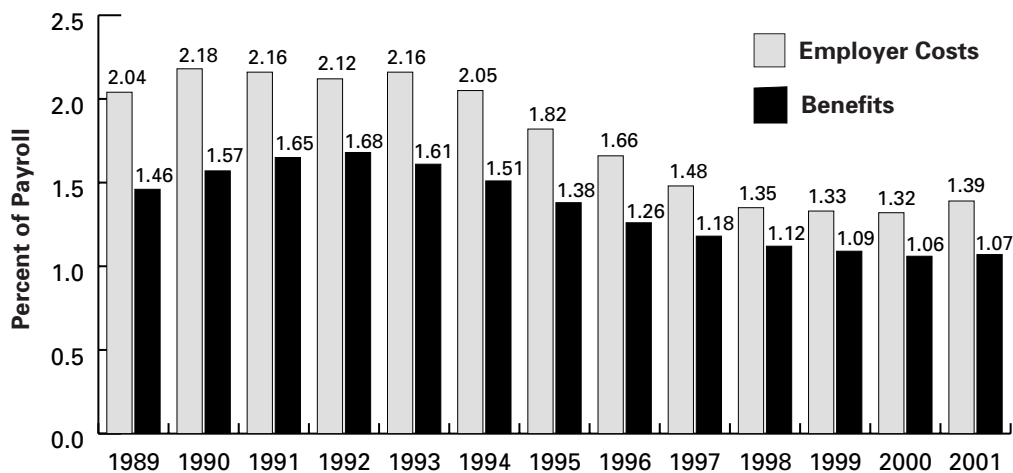
methods of rating permanent disability and controls against "doctor shopping" reduced claimants' incentive to seek additional medical care in order to strengthen their permanent disability claims. On the other hand, worker representatives emphasize that a stricter adjudicative climate deterred legitimate claims and restrictions on workers' choice of their treating doctor made it more difficult to get their claims documented and approved.

It is plausible that retrenchment in either the general health care system or in workers' compensation health care will influence decisions of both patients and doctors about which system they will seek to pay for health care, particularly in cases of borderline work relatedness. The share of workers compensation spending for medical care declined from 42 percent of total benefits in 1992 to 39 percent in 1995. Since then, it gradually rose to about 45 percent in 2001.

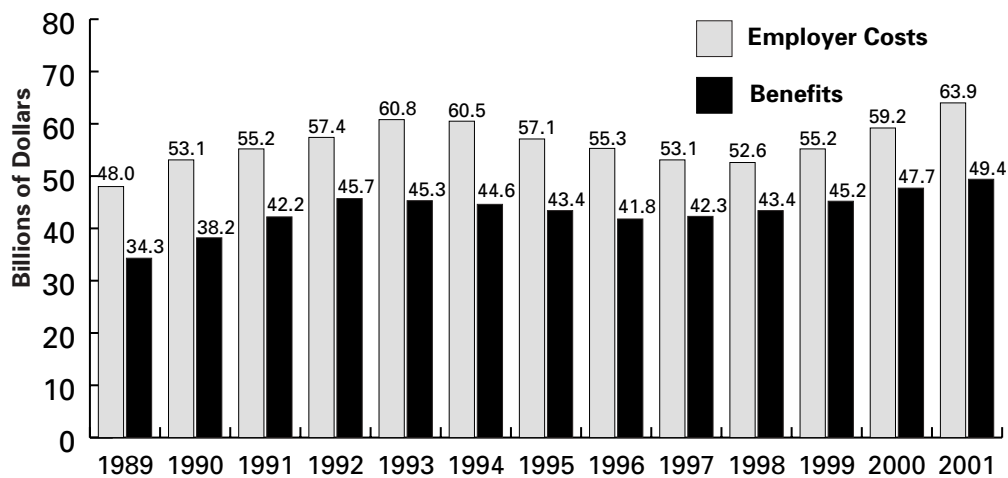
According to the U.S. Bureau of Labor Statistics, private sector employers have reported fewer workplace injuries or illnesses that result in lost workdays during the 1990s. The number of such injuries or illnesses per 100 full-time workers declined from 3.0 in 1992 to 1.7 in 2001 (U.S. DOL 2003a). In addition, the National Council on Compensation Insurance reports a steady decline in work-related injury rates and claims frequency in the 1990s (NCCI 2002d). These findings suggest that work-

**Figure 1**

**National Workers' Compensation Benefits and Costs Per \$100 of Covered Wages, 1989–2001**



Source: National Academy of Social Insurance estimates.

**Figure 2****Workers' Compensation Benefits and Costs, 1987–2001**

Source: National Academy of Social Insurance estimates.

places are becoming safer. At the same time, a number of studies indicate significant under-reporting of work-related injuries or illnesses (Azaroff et al. 2002; Shannon and Lowe 2002; and Biddle et al. 1998). We know of no comprehensive study that determines whether the extent of under-reporting has changed over time.

Changes in rules or practices about whether health conditions are compensable under workers' compensation could also contribute to changes in overall system benefits and costs and in the nature of injuries reported. There is evidence that between 7.0 and 9.4 percent of the decline in injury rates between 1991 and 1997 is an indirect result of tighter eligibility standards and claims-filing restrictions for workers' compensation (Boden and Ruser 2003). Fewer cases reported to the workers' compensation system could result in fewer injuries reported in the BLS survey.

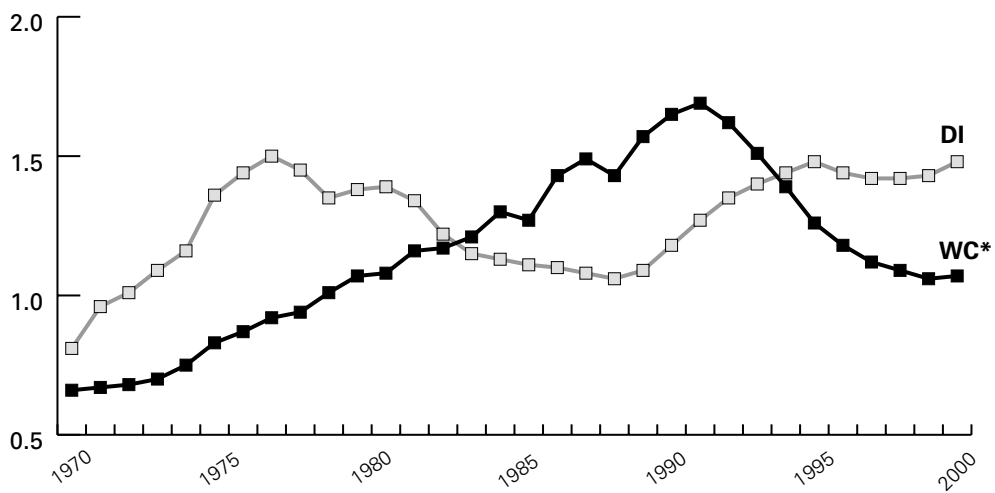
In response to rapid growth in costs in the late 1980s, some jurisdictions introduced changes that affect eligibility or benefits, such as: (a) limiting compensability when a pre-existing condition is involved; (b) stricter evidentiary requirements; (c) limiting compensability for particular conditions, such as mental stress or cumulative trauma disorders; (d) stricter rules for permanent disability benefits; and (e) discouraging fraudulent claims (Burton and Spieler 2001). For older workers, in particular, it may be difficult to discern the extent to which a condition is directly related to events on the job, or

whether it is the cumulative impact of aging and life-long arduous work. Given this gray area, changes in rules or practices with regard to compensability could have a significant impact as a growing share of the workforce is over age 50. The 1999 Current Population Survey indicates that 22.3 percent of workers' aged 55–64 have a disability that affects their ability to work. This rate steadily decreases with age to 12.9 percent of those between the ages of 45–54 and 8.9 percent of those between the ages of 35–44. The nature of these disabilities in older workers, however, is disproportionately of a gradual nature as opposed to resulting from traumatic injury at work (Burton and Spieler 2001).

Interaction with other disability benefit programs could also affect overall system benefits and costs. In the 1980s, when workers' compensation grew rapidly as a share of covered wages, Social Security disability benefits actually declined as a share of covered wages, following retrenchments in that program in the early 1980s (Figure 3). On the other hand, in the 1990s, workers' compensation declined while Social Security disability benefits rose as a share of covered wages. While most workers' compensation recipients would not be eligible for Social Security because their disabilities are only temporary or partial, those with the most significant disabilities who might qualify for Social Security would be the more costly workers' compensation cases. To date, the interaction of workers' compensation and Social Security disability insurance has received little analytic attention.

**Figure 3**

**Types of Disabilities in Workers' Compensation Cases with Cash Benefits, 1977–1999**



\* Starting in 1989, a new method was used to estimate covered wages that accounts the decrease of benefits as a percent of covered wages in that year. For more information, see NASI 1997.

Source: National Academy of Social Insurance and the Office of the Chief Actuary, Social Security Administration.

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