Workers’ Compensation: Benefits, Coverage, and Costs, 2007
Report Highlights

August 2009
National Academy of Social Insurance
Washington, DC
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Social insurance encompasses broad-based systems for insuring workers and their families against economic insecurity caused by loss of income from work and the cost of health care. NASI’s scope covers social insurance such as Social Security; Medicare; workers’ compensation; and unemployment insurance, related public assistance, and private employee benefits.

The Academy convenes study panels that are charged with conducting research, issuing findings, and, in some cases, reaching recommendations based on their analysis. 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.

This research report presents new data and does not make recommendations. It was prepared with the guidance of 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.

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

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Report Highlights

by

Ishita Sengupta, Virginia Reno, and John F. Burton, Jr.

with advice of the

Study Panel on National Data on Workers’ Compensation

August 2009
NATIONAL ACADEMY OF SOCIAL INSURANCE
Washington, DC
Preface

This is the twelfth report the Academy has issued on workers’ compensation national data. Before the National Academy of Social Insurance began the publication, the U.S. Social Security Administration (SSA) produced the only comprehensive national data on workers’ compensation benefits and costs with annual estimates dating back to 1946. SSA discontinued the series in 1995 after publishing data for 1992–93. 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. In December 1997, it published a report that extended the data series through 1995. Today funding for the project comes from the Social Security Administration, the Centers for Medicare & Medicaid Services, and the U.S. Department of Labor. In addition, the National Council on Compensation Insurance and National Association of Insurance Commissioners provide access to important data for the project. Without support from these sources, continuing this vital data series would not be possible.

This is the fifth edition of the report co-authored by Ishita Sengupta, Virginia Reno, and me. Ishita warrants her name being listed first in recognition of the amounts of time and energy she devoted to the publication. This report also benefited from the expertise of members of the Study Panel on National Data on Workers’ Compensation, who gave generously of their time and knowledge in advising on data sources and presentation, interpreting results, and reviewing the draft report. The panel is listed on page ii. We would like to especially acknowledge Barry Llewellyn, Senior Divisional Executive and Actuary with the National Council on Compensation Insurance; Eric Nordman, Director of Research, National Association of Insurance Commissioners; Greg Krohm, Executive Director, International Association of Industrial Accident Boards and Commissions; and Les Boden, Professor, Boston University, who provided the Academy with data and their considerable expertise on many data issues. We also thank Frank Neuhauser, University of California, Berkeley; Allan Hunt, Upjohn Institute; Mike Manley, Oregon Department of Consumer and Business Services; Alex Swedlow, California Workers’ Compensation Institute; and Doug Holmes, UWC for their suggestions for this report. This report also benefited from helpful comments during Board review by Bill Johnson, Rene Parent and Hank Patterson.

John F. Burton, Jr.
Chair, Study Panel on National Data on Workers’ Compensation
National Academy of Social Insurance Workers’ Compensation Data Study Panel

John F. Burton, Jr., Chair
Professor Emeritus
Labor Studies & Employment Relations, School of Management & Labor Relations
Rutgers University

Marjorie Baldwin
Professor, W. P. Carey School of Business, School of Health Management and Policy
Arizona State University

Peter S. Barth
Professor of Economics, Emeritus, University of Connecticut

Christine Baker
Executive Officer, CHSWC

Keith Bateman
Vice President, Workers’ Compensation
Property Casualty Insurers Association of America

Leslie Boden
Professor, School of Public Health, Boston University

Aaron Catlin
Deputy Director, National Health Statistics Group, Office of the Actuary, Centers for Medicare and Medicaid Services

James N. Ellenberger
Former Deputy Commissioner
Virginia Employment Commission

Shelby Hallmark
Director, Office of Workers’ Compensation Programs
U.S. Department of Labor

Jay S. Himmelstein, M.D., MPH
Professor, Family Medicine and Community Health
Chief Health Policy Strategist, Center for Health Policy and Research, University of Massachusetts Medical School

Douglas J. Holmes
President, UWC -Strategic Services on Unemployment and Workers’ Compensation

H. Allan Hunt
Senior Economist
W.E. Upjohn Institute

Kate Kimpan
Vice President, Workers’ Compensation Programs
Dade Moeller & Associates

Gregory Krohm
Executive Director
International Association of Industrial Accident Boards and Commissions

Barry Llewellyn
Senior Divisional Executive, Regulatory Services
National Council on Compensation Insurance, Inc.

Mike Manley
Research Coordinator
Oregon Department of Consumer and Business Services

Frank Neuhauser
Research Faculty
University of Berkeley

Eric Nordman
Director of Research
National Association of Insurance Commissioners

Robert Reville
Director, Institute for Civil Justice, RAND

John Ruser

Emily A. Spieler
Dean and Edwin W. Hadley Professor of Law, Northeastern University School of Law

Robert Steggert
Vice President, Casualty Claims, Marriott International, Inc.

Alex Swedlow
Executive Vice President/Research California Workers’ Compensation Institute

Richard A. Victor
Executive Director, Workers’ Compensation Research Institute

Alex Wasarhelyi
Project Officer, Social Security Administration

Benjamin Washington
Statistician, National Health Statistics Group, Office of the Actuary, Centers for Medicare and Medicaid Services

William J. Wiatrowski
Associate Commissioner
Office of Compensation & Working Conditions
U.S. Department of Labor, Bureau of Labor Statistics
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Highlights
This report provides a benchmark of the coverage, benefits, and costs of workers’ compensation to facilitate policymaking 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 require comprehensive reporting of workers’ compensation coverage and benefits. The general lack of federally-mandated data means that 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 twelfth annual report on workers’ compensation benefits, coverage, and costs. This report presents new data on developments in workers’ compensation in 2007 and updates estimates of benefits, costs, and coverage for the years 2003–2006. 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 administer 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 track 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

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1 There is a new reporting requirement enacted in 2007, Section 111 of S 2499 (now Public Law No. 110-173) that workers’ compensation claims administrators must report to the CMS (Centers for Medicare and Medicaid Services) information about workers’ compensation recipients who are entitled to Medicare.
### Table 1


<table>
<thead>
<tr>
<th>Aggregate Amounts</th>
<th>2006</th>
<th>2007</th>
<th>Change In Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Covered workers (in thousands)</td>
<td>130,339</td>
<td>131,734</td>
<td>1.1</td>
</tr>
<tr>
<td>Covered wages (in billions)</td>
<td>$5,543</td>
<td>$5,855</td>
<td>5.6</td>
</tr>
<tr>
<td>Workers’ compensation benefits paid (in billions)</td>
<td>54.3</td>
<td>55.4</td>
<td>2.0</td>
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<tr>
<td>Medical benefits</td>
<td>26.3</td>
<td>27.2</td>
<td>3.3</td>
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<tr>
<td>Cash benefits</td>
<td>28.0</td>
<td>28.3</td>
<td>0.8</td>
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<td>Employer costs for workers’ compensation (in billions)</td>
<td>87.3</td>
<td>85.0</td>
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<td><strong>California</strong></td>
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<tr>
<td>Covered workers (in thousands)</td>
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<td>15,395</td>
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<td>Covered wages (in billions)</td>
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<td>$775</td>
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<td>Workers’ compensation benefits paid (in billions)</td>
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<td>5.4</td>
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<td>4.5</td>
<td>-10.0</td>
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<td>Employer costs for workers’ compensation (in billions)</td>
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<td>-14.3</td>
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<td><strong>Outside California</strong></td>
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<td></td>
</tr>
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<td>Covered workers (in thousands)</td>
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<td>116,339</td>
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<tr>
<td>Covered wages (in billions)</td>
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<td>$5,081</td>
<td>5.7</td>
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<tr>
<td>Workers’ compensation benefits paid (in billions)</td>
<td>44.2</td>
<td>45.5</td>
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<tr>
<td>Medical benefits</td>
<td>21.2</td>
<td>21.8</td>
<td>2.8</td>
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<tr>
<td>Cash benefits</td>
<td>23.0</td>
<td>23.7</td>
<td>3.2</td>
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<td>Employer costs for workers’ compensation (in billions)</td>
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<td>70.4</td>
<td>0.1</td>
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</table>

<table>
<thead>
<tr>
<th>Amount per $100 of Covered Wages</th>
<th>Change In Amount*</th>
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</thead>
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<tr>
<td><strong>United States</strong></td>
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</tr>
<tr>
<td>Benefits paid</td>
<td>$0.98</td>
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<tr>
<td>Medical payments</td>
<td>0.47</td>
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<td>Cash payments to workers</td>
<td>0.51</td>
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<td>Employer costs</td>
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<td><strong>California</strong></td>
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<td>Benefits paid</td>
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<tr>
<td>Medical payments</td>
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<td>Cash payments to workers</td>
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<td>Employer costs</td>
<td>2.32</td>
</tr>
<tr>
<td><strong>Outside California</strong></td>
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</tr>
<tr>
<td>Benefits paid</td>
<td>$0.92</td>
</tr>
<tr>
<td>Medical payments</td>
<td>0.44</td>
</tr>
<tr>
<td>Cash payments to workers</td>
<td>0.48</td>
</tr>
<tr>
<td>Employer costs</td>
<td>1.46</td>
</tr>
</tbody>
</table>

* Figures may not add to total due to rounding.

# Figures may not add to total due to rounding.
$55.4 billion in benefits in 2007. Of the total, $27.2 billion paid for medical care and $28.3 billion paid 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 permanent partial and permanent total disability benefits to workers who have lasting consequences of disabilities caused on the job; in most states 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, in contrast, pay benefits to workers with long-term disabilities of any cause, but only when the disabilities preclude work. Social Security also pays for rehabilitation services and survivor benefits to families of deceased workers. 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 2007, Social Security paid $95.9 billion in cash benefits to disabled workers and their dependents, while Medicare paid $57.2 billion for health care for disabled persons under age 65 (SSA, 2008d and CMS, 2008).

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 43 percent of all private sector employees are not provided any paid sick leave (BLS, 2007a). 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 care were $55.4 billion in 2007, a 2.0 percent increase from $54.3 billion in 2006. Medical payments increased by 3.3 percent to $27.2 billion and cash benefits to injured workers slightly increased, to $28.3 billion, from the prior year (Table 1).

Costs to employers fell by 2.7 percent in 2007 to $85.0 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

---

**Table 1 continued**

* 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.
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, 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 2007, aggregate wages of covered workers rose by 5.6 percent (Table 2). This increase was the combined effect of 1.1 percent increase in covered workers – due to job growth in the economy – and a 4.5 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 2007 (Table 1). Total payments on workers’ behalf fell by three cents to $0.95 per $100 of covered wages: medical payments fell from $0.47 per $100 of wages in 2006 to $0.46 in 2007, while wage-replacement benefits fell by three cents per $100 of wages to $0.48. The cost to employers fell by thirteen cents per $100 of covered wages, to $1.45 in 2007 from $1.58 in 2006.

Figure 1 shows the trends in employer costs and in cash and medical benefits combined as a share of covered wages over the past 19 years. Benefits and

### Table 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Workers (in thousands)</th>
<th>Percent Change</th>
<th>Total Wages (in billions)</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>103,900</td>
<td></td>
<td>$2,347</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>105,500</td>
<td>1.5</td>
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<td>1991</td>
<td>103,700</td>
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</tr>
<tr>
<td>1992</td>
<td>104,300</td>
<td>0.6</td>
<td>2,700</td>
<td>5.7</td>
</tr>
<tr>
<td>1993</td>
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<td>1.8</td>
<td>2,802</td>
<td>3.8</td>
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<tr>
<td>1994</td>
<td>109,400</td>
<td>3.0</td>
<td>2,949</td>
<td>5.2</td>
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<tr>
<td>1995</td>
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<td>3.1</td>
<td>3,123</td>
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<td>1998</td>
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<td>3,885</td>
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<tr>
<td>2004</td>
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<td>5.0</td>
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<td>2005</td>
<td>128,158</td>
<td>1.8</td>
<td>5,212</td>
<td>5.2</td>
</tr>
<tr>
<td>2006</td>
<td>130,339</td>
<td>1.7</td>
<td>5,543</td>
<td>6.3</td>
</tr>
<tr>
<td>2007</td>
<td>131,734</td>
<td>1.1</td>
<td>5,855</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Source: National Academy of Social Insurance estimates. See Appendix A.

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2 Rating bureaus, for example, assess insurance developments in the states and advise regulators and insurers on system changes.
costs declined sharply from their peaks in the early 1990s, reached a low in 2000, rebounded somewhat after 2000, and then declined in the last few years. As a share of covered wages, benefits in 2007 were at their lowest point in the last nineteen years at $0.95 per $100 of wages in 2007 (discussed in detail later in the report). Figure 2 shows the trend in medical and cash payments separately. In 2007, both medical and cash benefits per $100 of wages were at their lowest point in the past 19 years, at 0.46 and 0.48 per $100 of wages respectively.

National Trends With and Without California

California’s workers’ compensation program has changed significantly over the past few years. Because it is a big state (with 13.2 percent of national payroll and 17.8 percent of total benefits in 2007), California’s large shifts in benefits and employer costs have altered the course of national trends. For this reason, it is useful to examine national trends outside of California.

Table 1 shows the 2007 changes in California and in the rest of the nation outside California. California’s cash benefit payments dropped 10.0 percent in 2007. California medical benefit payments increased in 2007 after recording a 16 percent drop in 2005 and no change in 2006. Costs to California employers fell 14.3 percent in 2007, after showing a 16.6 percent drop in 2006.

When California is excluded, total benefit payments in the rest of the nation increased by 3.0 percent (in contrast with a drop of 2.7 percent when California is included). Employer costs outside California increased slightly by 0.1 percent (in contrast with a drop of 0.69 while cash benefits fell by 11 cents to $0.58. Outside California medical and cash benefits both fell by one cent to $0.43 and $0.47 per $100 of wages, and employer costs fell by seven cents to $1.39 per $100 of covered wages.

![Figure 2](image-url)

National Academy of Social Insurance

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