

Workers' Compensation:

Benefits, Coverage, and Costs, 2002

Highlights

by

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with advice of the

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

and the

Steering Committee on Workers' Compensation

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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 1995, 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 established the Study Panel on National Data on Workers' Compensation, listed on page iv.

This is the seventh 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 2003 extended the data series through 2001. 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 (Williams et al. 2003);
- 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 (Williams et al. 2003); and

- Provide more complete documentation of data collection methods and results, and of methods for estimating coverage, deductibles, and self-insured benefits and costs (Williams et al. 2003).

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 espe-

cially acknowledge 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. This report also benefited from helpful comments during Board review by Christine Baker, Marjorie Baldwin, and Kathryn Olson.

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Highlights

The purpose of this 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, no federal laws set standards for "tax-qualified" plans or impose any reporting requirements. Consequently, states vary greatly in their capacity and methods for assembling data to assess 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 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 seventh annual report on workers' compensation benefits, coverage, and costs. This report presents new data on developments in workers' compensation in 2002 and updates estimates of benefits, costs, and coverage for the years 1998-2001. The revised estimates in this report replace estimates in the Academy's prior report, *Workers' Compensation: Benefits, Coverage, and Costs, 2001*.

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 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 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 \$53.4 billion in workers' compensation benefits in 2002. Of the total, \$24.3 billion were for medical care and \$29.2 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

Table 1**Comparison of Workers' Compensation Benefits, Coverage, and Costs, 2001-2002
Summary**

	2001	2002	Percent Change
Covered workers (in thousands)	126,971	125,603	-1.1
Covered wages (in billions)	\$ 4,604	\$ 4,624	0.4
Workers' compensation benefits paid (in billions)	\$ 49.8	\$ 53.4	7.4
Medical benefits	\$ 22.2	\$ 24.3	9.4
Cash benefits	\$ 27.6	\$ 29.2	5.8
Employer costs for workers' compensation (in billions)	\$ 64.5	\$ 72.9	13.0
Benefits per \$100 of covered wages	\$1.08	\$1.16	6.9
Medical benefits per \$100 of covered wages	\$0.48	\$0.53	8.9
Cash benefits per \$100 of covered wages	\$0.60	\$0.63	5.3
Employer costs per \$100 of covered wages	\$1.40	\$1.58	12.5
Benefits per covered worker	\$ 392	\$ 425	8.5
Employer costs per covered worker	\$ 508	\$ 580	14.2

Source: National Academy of Social Insurance estimates based on Tables 2, 8, 9, 12, and 13.

amounts and relative to wages of covered workers in the 1990s. In 2002, benefits and costs relative to covered wages continued a rising trend that began in 2001.

Workers' compensation differs from Social Security disability insurance and Medicare in important ways. Workers' compensation pays for medical care for work-related injuries beginning with the date of injury; 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 2002, Social Security paid \$65.6 billion to disabled workers and their dependents, while Medicare paid \$33.4 billion for health care for disabled persons under age 65 (SSA 2003a and CMS 2004).

Some workers also have access to sick leave or long-term disability insurance benefits. About 70 percent of private sector employees have sick leave or short-

term disability coverage, while 30 percent of have no income protection for temporary sickness or disability other than workers' compensation. Benefits typically pay 100 percent of wages for a few weeks. 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.

2002 Developments

In 2002, workers' compensation covered 125.6 million workers, a decline of 1.1 percent from the 127.0 million workers covered in 2001 (Table 1). Total wages of covered workers were \$4.6 trillion in 2002, an increase of 0.4 percent from 2001. The decline in covered workers and very small growth in covered wages reflect the economic recession that began in March 2001 (NBER 2001) and the decline in employment that continued through 2002. States' rules about who is covered by workers' compensation did not change between 2001 and 2002.

Total workers' compensation benefit payments of \$53.4 billion in 2002 were 7.4 percent higher than in 2001. When viewed relative to total wages of covered workers, which grew hardly at all, benefits payments rose by 6.9 percent in 2002; that is benefits per \$100 of covered wages rose from \$1.08 in 2001 to \$1.16 in 2002 (Table 1). Payments for medical care rose 9.4 percent, while cash payments to injured workers increased 5.8 percent in 2002.

Employer costs for workers' compensation as measured for this report 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 2002 were \$72.9 billion, an increase of 13.0 percent from \$64.5 billion in 2001. Relative to total wages of covered workers, employer costs increased to \$1.58 per \$100 of covered wages in 2002, up from \$1.40 per \$100 of covered wages in 2001.

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.

This report includes data and information about 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 pneumo-

coniosis that is financed by employers. Other federal programs akin to workers' compensation that are covered in this report, but not included in national totals are: veterans' compensation benefits of about \$15.8 billion in 2002; 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 second year in a row, workers' compensation benefits relative to covered wages rose in 2002. This was also the second year that employer costs rose relative to covered wages (Figure 1).

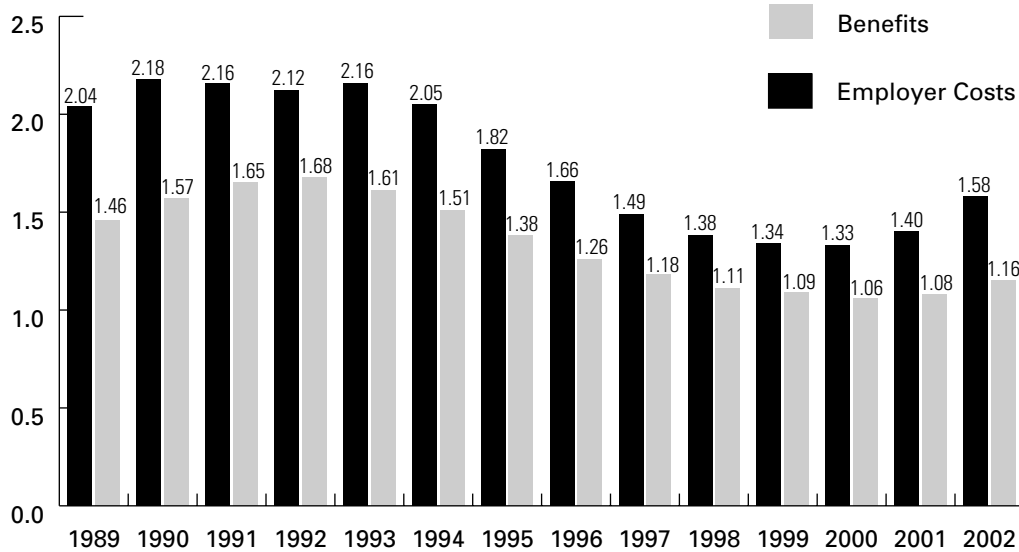
Over the longer term, benefits per \$100 of covered wages peaked in 1992 at \$1.68. The benefits of \$1.16 per \$100 of covered wages in 2002 are a decline of about 32 percent from that peak. Employer costs relative to covered wages in 2002 were about 27 percent lower than their peak in 1990, down from \$2.18 to \$1.58 per \$100 of covered wages.

Possible Reasons for Changes in Total Benefits and Costs

The increases in benefits and costs relative to covered wages in 2002 are due, in part, to very slow growth in covered wages in 2002 of just 0.4 percent. The lagging wage growth reflects job losses in 2002 following the economic recession that began in March 2001. The last time employment declined was in the 1991 economic recession.

Rising medical spending also contributed to the growth in workers' compensation in 2002. Medical benefits rose by 9.4 percent, while cash payments to workers rose 5.8 percent in 2002.

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

Figure 1**Workers' Compensation Benefits and Costs Per \$100 of Covered Wages, 1989–2002**

Source: National Academy of Social Insurance estimates.

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 in order to obtain higher permanent disability awards 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 even 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' incen-

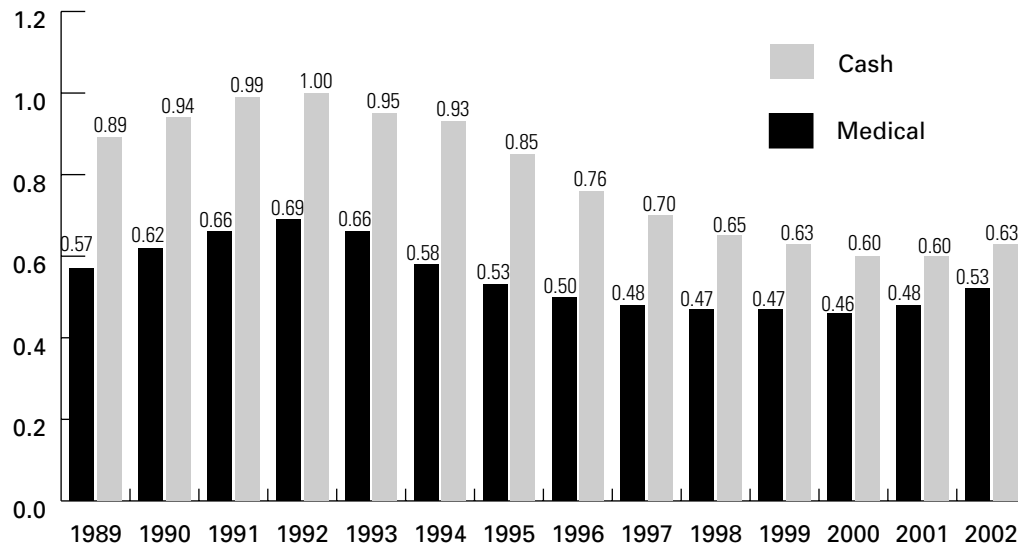
tive to seek additional medical care in order to strengthen their permanent disability claims. On the other hand, worker representatives argue that a stricter adjudicative climate deterred legitimate claims, while restrictions on workers' choice of their treating doctor made it more difficult to get legitimate 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. Between 1992 and 2000 workers' compensation spending for medical care as a share of covered wages fell by 33 percent, from \$0.69 to \$0.46 per \$100 of covered wages (Figure 2).

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 2004a). While data for 2002 are not strictly comparable to prior year data due to changes in OSHA record keeping requirements, the 2002 rate of 1.6 injuries and illnesses involving days away from work per 100 full-time workers is consistent with the data from earlier years. In addition, the National Council on

Figure 2

Workers' Compensation Medical and Cash Benefits per \$100 of Covered Wages, 1989-2002



Source: National Academy of Social Insurance estimates.

Compensation Insurance reports a steady decline in work-related injury rates and claims frequency in the 1990s (NCCI 2002b). These findings suggest that workplaces 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.

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. 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.