
Workers' Compensation Program Experience, 1981

by Daniel N. Price*

Although the workers' compensation program covered more workers and paid more in benefits in 1981 than it did a year earlier, the rise in both of these indicators was slightly smaller than those in 1980 and considerably smaller than the increases that took place in the 1970's. Employers paid \$22.9 billion in premiums in 1981, less than 3 percent more than the previous year and the smallest annual increase since 1958. The cost-payroll ratio also showed a 12-point drop in 1981, the first such decline since 1959 and a sharp contrast to the almost 9 percentage point average annual rise in the 1970's. The Black Lung program, which made up more than a fifth of the benefit payments under workers' compensation in 1973, accounted for only about an eighth by 1981.

The most notable change in workers' compensation program operations from 1980 to 1981 was a slowing of employer costs. Employers paid \$22.9 billion in premiums in 1981, less than 3 percent above the previous year and the smallest annual increase since 1958.¹ A 12-point drop in the cost-payroll ratio from 1.96 percent to 1.84 percent was another dramatic indicator that costs were moderating in 1981—the first such decline since 1959 and the first decline of more than 2 percentage points since 1955.

Workers' compensation programs covered about 79 million workers in 1981, and paid \$15 billion in benefits to disabled workers and their dependents and survivors. The rise in the number of workers covered and benefit payments in 1981 were similar to those in 1980 and considerably smaller than the increases that predominated in the 1970's. The Black Lung program, which accounted for a peak of 21 percent of all workers' compensation benefits in 1973, paid \$1.7 billion in 1981, or 12 percent of all benefits.

The Social Security Administration has provided annual estimates of experience under the State workers' compensation programs since 1942. The series features national estimates of coverage, benefits, and costs. In

addition, benefit totals by type of insurer are given for each State program and for the special programs for Federal employees, coal miners, and certain other groups covered under Federal law.

Coverage

In 1981, 79.4 million American workers were protected under workers' compensation laws. This was slightly higher (1 percent) than the number in 1980, reflecting primarily a growth in the labor force. During most of the 1970's, coverage rose by 3–6 percent a year, as the labor force grew and States expanded their program coverage provisions.

The proportion of the work force protected by workers' compensation was 87 percent, about the same as it has been since 1973. No major statutory changes were made by States in 1980 or 1981 that affected coverage. Relatively few increases in coverage have been legislated since 1975 and, in fact, coverage for certain groups of workers has been cancelled in some States.

The payroll for covered workers reached \$1,247 billion in 1981, about 10 percent above 1980. This substantial growth reflects the continued upward movement of wages. For example, in 1981, the average annual wage among workers covered by unemployment insurance was \$15,704, a rise of about 9 percent from 1980. The covered payrolls equaled 86 percent of total civilian wages and salaries. This relationship has also been stable since the mid-1970's.

* Office of Research, Statistics, and International Policy, Office of Policy, Social Security Administration.

¹ The 1980 data in this article are revised from previously published preliminary data. Therefore, ratios, percentage increases, and other data in this article may differ slightly from what would be compiled using the previously available 1980 information. See Daniel N. Price, "Workers' Compensation: Coverage, Benefits, and Costs, 1980," *Social Security Bulletin*, May 1983, pages 14–19.

Benefit Trends

Workers received an estimated \$15.0 billion in medical care and cash indemnity benefits during 1981. As shown in table 1, this total was 10 percent above the 1980 total. However, benefit growth among regular State programs was somewhat higher—12 percent—reflecting the stability of Black Lung benefits from 1980 to 1981. This 12-percent growth, although substantial, nevertheless indicates a considerably reduced rate of annual changes typical of the 1970's. As recently as 1979, regular program payments were 18 percent above the previous year.

Once again in 1981, the rise in aggregate benefits was a result of increases in both medical care costs and wages. The medical care component of the Consumer Price Index went up almost 11 percent in 1981. Wage levels² went up 9 percent, which was reflected in higher benefits because of the statutory benefit formulas. The average maximum weekly benefit amount for temporary total disability as of January 1, 1981, was \$241, or 9 percent above the corresponding 1980 amount.³ Benefit maximums have closely followed the rise in wages since the early 1970's when most States enacted benefit liberalizations, especially provisions that automatically raise benefits as wages go up (flexible maximums). (Some increases in benefits were legislated in 1981; five States raised burial allowances during the year.)

In general, the past few years have seen a slowing down and, in some instances, a reversal of benefit

² Wages reported here are those covered by unemployment insurance, the closest available measure for estimating wages covered under workers' compensation programs.

³ The average of the maximum in 52 jurisdictions is weighted by covered employment in each State.

Table 1.—Estimates of workers' compensation payments, by type of benefits, 1980 and 1981

Type of benefits	Amount of payments (in millions)		Percent change
	1980	1981	
Total	\$13,562	\$14,955	10.3
Regular	11,823	13,220	11.8
Black Lung	1,739	1,735	.2
Medical and hospitalization	3,930	4,400	12.0
Regular	3,903	4,365	11.8
Black Lung	27	35	29.6
Compensation	9,632	10,555	9.6
Regular	7,920	8,855	11.8
Black Lung	1,712	1,700	-.7
Disability	8,322	9,160	10.1
Regular	7,245	8,130	12.2
Black Lung	1,077	1,030	-4.4
Survivor	1,310	1,395	6.5
Regular	675	725	7.4
Black Lung	635	670	5.5

liberalizations that characterized the early to mid-1970's. In 1981, four jurisdictions limited previously approved increases. At least seven jurisdictions decreased benefit eligibility by excluding disabilities under circumstances previously considered compensable (injuries incurred while participating in employer encouraged ride-sharing, while in alcohol or drug rehabilitation programs, or in various at-work recreational activities).

Another factor affecting trends in aggregate benefit payments is the frequency and extent of work injuries. Information is available annually from the Bureau of Labor Statistics on workplace injuries and illness in private industry. In 1981, the number of injuries and illnesses per 100 full-time equivalent employees was 8.3, and the number of workdays lost per lost workday case was 16.0. Both measures were lower than the figures for 1980 (8.7 and 16.5, respectively), and contributed to the somewhat slower rise in benefit expenditures.

In 1981, the share of payroll devoted to workers' compensation benefits was 1.08 percent. This compares with a 1.06 ratio in 1980, continuing a string of annual increases that began in 1970. Recent rising benefit-to-payroll ratios in the face of slightly decreased injury rates and minimal statutory liberalizations could be due to changing industrial and occupational composition—or, more likely, to increased awareness and utilization of programs benefits by workers. Whether because of recent improvement in claims administrative procedures or as a result of the broadening of coverage and benefits enacted earlier, the higher benefit-payroll rates in the past few years probably continue to represent real additions to the amount of workers' compensation benefits being provided.

Benefit Categories

In 1981, workers received \$4.4 billion in medical and hospital care for work-related disabilities, while workers or their survivors received \$10.6 billion in cash payments for disability or death. The following tabulation shows the percentage distribution of benefits for all programs combined and for the regular and Black Lung programs in 1981. These distributions are about the same as in the past few years.

Program	Total	Medical and hos- pitalization	Cash payments		
			Total	Disability	Survivor
All programs ...	100.0	29.4	70.6	61.3	9.3
Regular	100.0	33.0	67.0	61.5	5.5
Black Lung	100.0	2.0	98.0	59.4	38.6

The tabulation also highlights the fact that survivor benefits were a much larger part of the Black Lung benefit total than in the regular State programs. Be-

ginning in 1970—when the Federal Black Lung program started paying benefits—through 1981, approximately 60–65 percent of the Black Lung total was in disability benefits and 35–40 percent in survivor benefits. Black Lung survivor benefits increased by 6 percent in 1981 whereas disability payments declined slightly (see table 1). In future years, the proportion of survivor payments in the Black Lung program should grow as the beneficiary population ages and few new claimants come on the rolls relative to the large number entitled when the program began.

Employers provide workers' compensation protection through three types of mechanisms: private insurance, State funds, and self-insurance (table 2). In 1981, \$7.9 billion in benefits, or 53 percent, was paid through private insurance, \$4.6 billion by State funds (31 percent), and \$2.5 billion by self-insured employers (17 percent).

For regular programs, that is, excluding Federal Black Lung payments, the relative shares of the benefit total were different. Private insurance accounted for 60 percent of benefits paid, State funds for 22 percent, and self-insurance for 19 percent. This distribution has been fairly stable since World War II. In the past several years more employers began self-insuring their programs so that benefits paid by self-insurers rose gradually from about 14 percent in the late 1960's to 19 percent in 1981.

Interstate Variation

The amount of benefits shown by State in table 2 reflects interesting patterns. Benefits continued their upward climb in all but one State in 1981. The largest expenditure was to California workers, \$1.8 billion, and the smallest was to South Dakota workers, \$15 million. Benefits in the eight States with the highest payment totals were 53 percent of the total for the 50 States and the District of Columbia. Because of employment trends and legislative changes in the programs, the leading States have gradually come to account for a somewhat smaller part of the national total. Payments made by these States at the beginning of this series in 1939 amounted to 64 percent of the total.

There was a general slowing of benefit growth in 1981. Benefits increased by at least 15 percent in 35 jurisdictions from 1979 to 1980, but in only 21 jurisdictions from 1980 to 1981 (table 3). The slower benefit growth in 1981 is also notable in terms of the proportion of covered employees affected. Fifty-one percent of the covered employees were in States with benefit increases of at least 15 percent in 1980, compared with 30 percent of the employees in 1981.

As in the past, there was a fair amount of geographic variation in the growth of benefits. The largest increase in aggregate benefits occurred in the New England

States (19 percent) and the smallest in the East North Central States (8 percent).⁴

Benefits grew at a much slower pace in New England than elsewhere from 1974 to 1976. In the most recent years, though, New England has experienced especially large benefit growth. Several large increases in statutory maximum weekly benefits in Connecticut and Massachusetts beginning in 1977 contributed to accelerated payment growth in 1979–81, and, in turn, raised the average increases in New England.

Employer Costs

Total employer costs to protect workers against work-related disabilities in 1981 were \$22.9 billion. This amount was only 2.9 percent above the 1980 level. Employer costs are defined as (1) the premiums paid to insurance companies to pay workers' compensation benefits and to administer claims and (2) the corresponding hypothetical premiums of self-insured employers. The annual changes in employer costs from 1970 to 1981 have been dramatic and are shown in chart 1.

The 2.9-percent rise in 1981 was the smallest annual increase since 1958. Interestingly, premiums paid to State funds actually declined by 3.9 percent in 1981, while private carrier premiums rose 2.7 percent (and hypothetical premiums for Federal programs and self-insurance rose even more).

The estimated costs for each type of insurer in 1981 were \$16.2 billion for private carriers, \$4.0 billion for State funds (including \$0.9 billion for the Federal employees' program⁵ and \$230 million in the Federal Black Lung program financed by employer contributions), and \$2.7 billion for self-insurance benefits and administration.

The changing trend in employer costs is particularly apparent in the relationship of costs to covered payroll. Costs were \$1.84 per \$100 of payroll in 1981, notably lower than the \$1.96 of 1980. This decline was a reversal of the yearly increases between 1971 and 1980. When the cumulative effects of statutory liberalizations and price and wage inflation peaked in 1977, the cost-payroll ratio rose by 22 cents over the 1976 level. Since then the annual increases have been smaller each succeeding year, becoming a 12-cent decline in the 1981 ratio.

With benefit payments rising relatively more than employer costs for the third year in a row, the proportion of each dollar of premiums written going to benefits in 1981 rose to 59 percent. Thus, after a precipitous fall

⁴ The New England States are Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. The East North Central States are Illinois, Indiana, Michigan, Ohio, and Wisconsin.

⁵ Federal employee "premiums" consist of the sum of benefit payments and the costs of the administrative agency.

Table 2.—Estimates of workers' compensation payments, by State and type of insurance, 1980 and 1981¹

[In thousands]

Jurisdiction	1980				1981				Percent change in total payments, 1980-81
	Total	Insurance losses paid by private insurance ²	State and Federal fund disbursements ³	Self-insurance payments ⁴	Total	Insurance losses paid by private insurance ²	State and Federal fund disbursements ³	Self-insurance payments ⁴	
United States	\$13,562,034	\$7,022,707	\$4,333,190	\$2,206,137	\$14,955,161	\$7,868,106	\$4,586,624	\$2,500,431	10.3
Alabama	112,440	80,440	...	32,000	122,362	87,362	...	35,000	8.8
Alaska	59,721	51,921	...	7,800	62,179	51,779	...	10,400	4.1
Arizona	119,777	60,608	48,796	10,373	133,051	68,101	52,850	12,100	11.1
Arkansas	82,511	63,961	...	18,550	102,169	77,969	...	24,200	23.8
California	1,627,715	950,288	233,427	444,000	1,809,323	1,068,512	242,811	498,000	11.2
Colorado	114,496	39,970	60,826	13,700	139,522	47,696	73,426	18,400	21.9
Connecticut	132,396	117,196	...	15,200	160,596	138,696	...	21,900	21.3
Delaware	20,618	16,218	...	4,400	21,714	16,914	...	4,800	5.3
District of Columbia	69,454	57,494	...	11,960	78,839	64,779	...	14,060	13.5
Florida	362,000	299,000	...	63,000	400,165	322,715	...	77,450	10.5
Georgia	184,828	156,328	...	28,500	215,867	182,467	...	33,400	16.8
Hawaii	59,695	44,295	...	15,400	74,849	54,399	...	20,450	25.4
Idaho	37,606	26,266	7,640	3,700	41,469	29,465	7,704	4,300	10.3
Illinois	665,212	559,212	...	106,000	658,527	553,527	...	105,000	-1.0
Indiana	109,715	91,015	...	18,700	119,433	98,533	...	20,900	8.9
Iowa	98,962	82,462	...	16,500	108,500	88,600	...	19,900	9.6
Kansas	84,478	72,138	...	12,340	95,219	80,489	...	14,730	12.7
Kentucky	160,576	109,508	...	51,068	164,243	123,075	...	41,168	2.3
Louisiana	300,629	254,729	...	45,900	350,923	292,423	...	58,500	16.7
Maine	81,263	64,463	...	16,800	108,801	85,201	...	23,600	33.9
Maryland	186,841	129,534	19,007	38,300	212,943	143,690	24,503	44,750	14.0
Massachusetts	295,770	272,409	...	23,361	341,505	312,780	...	28,725	15.5
Michigan	626,266	343,057	33,209	250,000	670,392	379,424	22,968	268,000	7.0
Minnesota	257,484	219,984	...	37,500	296,558	253,558	...	43,000	15.2
Mississippi	60,285	54,185	...	6,100	66,607	60,507	...	6,100	...
Missouri	123,710	104,910	...	18,800	137,537	113,737	...	23,800	11.2
Montana	40,872	14,441	21,724	4,707	45,253	15,659	524,162	5,432	10.7
Nebraska	42,457	37,557	...	4,900	48,768	43,168	...	5,600	14.9
Nevada	69,136	456	66,680	2,000	80,899	930	77,620	2,349	17.0
New Hampshire	47,965	42,585	...	5,380	54,911	49,287	...	5,624	14.5
New Jersey	316,426	284,576	...	31,850	329,223	298,223	...	31,000	4.0
New Mexico	54,104	50,104	...	4,000	68,751	64,851	...	3,900	27.1
New York	637,108	346,766	178,025	112,317	688,815	373,791	193,524	121,500	8.1
North Carolina	130,817	106,917	...	23,900	146,806	118,806	...	28,000	12.2
North Dakota	16,976	95	16,881	...	18,564	137	18,427	...	9.4
Ohio	776,323	1,684	507,639	267,000	904,918	2,840	587,078	315,000	16.6
Oklahoma	133,545	89,084	22,961	21,500	161,316	110,485	24,831	26,000	20.8
Oregon	274,915	81,985	139,565	53,365	298,349	90,669	144,243	63,437	8.5
Pennsylvania	571,908	386,320	56,514	129,074	656,681	447,204	562,386	147,091	14.8
Rhode Island	55,319	49,819	...	5,500	64,805	58,405	...	6,400	17.1
South Carolina	79,284	66,453	...	12,831	90,135	75,535	...	14,600	13.7
South Dakota	13,133	11,433	...	1,700	15,226	13,226	...	2,000	15.9
Tennessee	129,112	115,312	...	13,800	149,738	133,738	...	16,000	16.0
Texas	700,775	700,775	808,617	808,617	15.4
Utah	39,280	10,414	22,866	6,000	45,722	12,880	25,592	7,250	16.4
Vermont	15,334	14,084	...	1,250	18,600	17,100	...	1,500	21.3
Virginia	173,490	136,590	...	36,900	199,485	157,085	...	42,400	15.0
Washington	324,201	12,427	240,960	70,814	370,461	16,636	272,667	81,158	14.3
West Virginia	176,161	145	119,319	56,697	201,764	1,813	132,694	67,257	14.5
Wisconsin	171,544	140,844	...	30,700	191,464	157,164	...	34,300	11.6
Wyoming	14,072	250	13,822	...	19,436	3,459	15,977	...	38.1
Federal:									
Civilian employee program ⁶	776,403	...	776,403	...	842,053	...	842,053	...	8.5
Black Lung benefits program ⁷	1,738,548	...	1,738,548	...	1,734,592	...	1,734,592	...	-2
Other ⁸	8,378	...	8,378	...	6,516	...	6,516	...	-22.2

¹ Data for 1981 preliminary. Calendar-year figures, except that data for Montana and West Virginia, for Federal civilian employees and "other" Federal workers' compensation, and for State fund disbursements in Maryland, Nevada, North Dakota, Utah, and Wyoming represent fiscal years ended in 1980 and 1981. Includes benefit payments under the Longshoremen's and Harbor Worker's Compensation Act and Defense Bases Compensation Act for the States in which such payments are made.

² Net cash and medical benefits paid during the calendar year by private insurance carriers under standard workers' compensation policies. Data primarily from A.M. Best Company, a national data-collecting agency for private insurance.

³ Net cash and medical benefits paid by State funds compiled from State reports (published and unpublished); estimated for some States.

⁴ Cash and medical benefits paid by self-insurers, plus the value of medical

benefits paid by employers carrying workers' compensation policies that do not include the standard medical coverage. Estimated from available State data.

⁵ Includes payment of supplemental pensions from general funds.

⁶ Payments to civilian Federal employees (including emergency relief workers) and their dependents under the Federal Employees' Compensation Act.

⁷ Includes \$706,538,000 in 1980 and \$653,332,000 in 1981 paid by the Department of Labor.

⁸ Primarily payments made to dependents of reservists who died while on duty in the Armed Forces, to individuals under the War Hazards Act, War Claims Acts, and Civilian War Benefits Act, and to Civil Air Patrol and Reserve Officers Training Corps personnel, persons involved in maritime war risks, and law-enforcement officers under Public Law 90-921.

Table 3.—Distribution of States and workers by percentage change in workers' compensation benefits, 1979-80 and 1980-81¹

Percentage change in benefits	Number of States		Percentage distribution of covered workers	
	1979-80	1980-81	1979-80	1980-81
Total.....	52	52	100.0	100.0
Decrease	0	1	0	5.3
Increase:				
0.0-4.9	1	3	2.1	4.8
5.0-9.9	5	9	18.7	21.6
10.0-14.9	11	18	28.2	38.2
15.0-19.9	18	12	32.2	23.8
20.0 or more	17	9	18.8	6.3

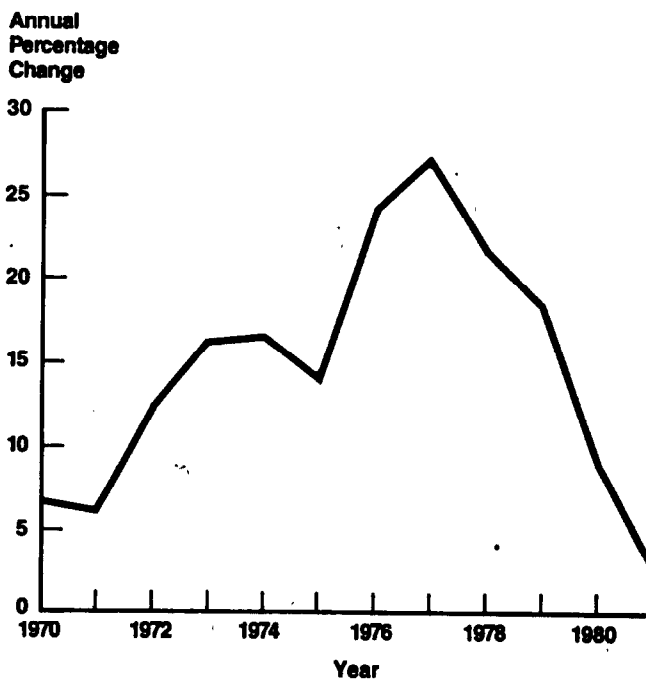
¹ Includes programs in all the States and the District of Columbia and the program for Federal civilian employees.

from 62 percent in 1975 to 51 percent in 1978, the benefit-cost ratio has returned just as rapidly to the "normal" range. The benefit-premium ratio ranged from 58 percent to 62 percent in 17 of the 25 years reported in this series before 1975.

The same trend is evident in the benefit-cost ratios for private insurance and State funds. For private carriers the 1981 ratio of benefits paid to direct premiums written, usually termed the loss ratio, was up to 49 percent. This figure was 4 percentage points above the 1980 figure and almost back to the 50-55 percent range that characterized 18 of the 25 years before 1975. The private carrier ratio based on losses incurred and premiums earned, which includes amounts set aside to cover liabilities from future claims payments, is generally higher than that based on direct premiums, especially in inflationary periods. In 1981, the incurred loss ratio was 66 percent. This amount also represents a return to earlier levels from the volatile movement of the 1970's.

For the 18 State funds, the ratio of benefits paid to direct premiums written jumped 9 points to 69 percent between 1980 and 1981. This compares with an average ratio of 70 percent from 1964 to 1976 and 72 percent from 1950 to 1963.

Chart 1. — Annual increases in workers' compensation employer costs,¹ 1970-81



¹Direct premiums written.

The loss ratio for private carriers and, to some extent, for State funds does not take into account the premium income returned to employers in the form of dividends. Available data indicate that, when dividends are related to total premium payments (for both dividend and non-dividend paying companies), they averaged about 5-9 percent throughout the 1970's. However, dividends as a percent of earned premiums averaged 10 percent in 1981.⁶

⁶ The 10 percent figure reflects experience for all companies included in the 1982 Insurance Expense Exhibit of the National Council on Compensation Insurance.