

Workers' Compensation: Coverage, Benefits, and Costs, 1989

by William J. Nelson, Jr.*

Approximately 93.7 million wage and salary workers were covered under the State and Federal workers' compensation programs in 1989. Monthly cash benefits totaled \$34.3 billion and total cost to employers reached \$48.0 billion. The workers' compensation programs' intent is to provide protection to workers and their families that will compensate for lost wages and medical expenses. Workers are protected under the separate laws of 51 jurisdictions (including the District of Columbia) and two Federal programs—the Federal Employees Compensation Act and the Longshoremen's and Harbor Workers' Compensation Act.¹ In addition, the Federal Black Lung program—a specialized workers' compensation program—provides monthly cash benefits to totally disabled coal miners, their dependents, and their survivors. Medical benefits are also payable on the basis of a diagnosis of pneumoconiosis (Black Lung disease).

Benefits are paid to workers whose disability is the result of a work-related injury or illness and to the dependents of workers whose death resulted from a job-related accident or an occupational disease. Of the \$34.3 billion in benefits paid in 1989, approximately \$20.9 billion was paid as partial compensation for lost wages and \$13.4 billion was paid for medical expenses.

Employers paid nearly \$48.0 billion in 1989, about 10.8 percent more than in 1988, to provide workers' compensation protection to their employees. These costs include premium payments

to private insurance companies, State insurance funds, and self-insurance benefits and administrative costs.

Although workers' compensation laws vary from one jurisdiction to another, the underlying principle is that employers should assume the costs of occupational disabilities without regard to fault. Thus, employers are relieved of liability from common-law suits involving negligence and any resulting economic losses are considered production costs. Before the enactment of workers' compensation laws in the United States (the first of which was in 1908) an injured worker could recover damages only if he or she could establish that the injury was due to the negligence of the employer. By 1949, all States had established programs to provide income-maintenance protection to workers and their dependents in the

event of disability or death from work-related injury or illness.

About three-fourths of all compensable claims for workers' compensation benefits and one-fourth of all such cash benefits paid involve temporary total disability—that is, the employee is unable to work at all while he or she is recovering from the injury, but is expected to recover fully. Benefits are paid under most State laws as long as the disability lasts and the condition continues to improve with medical treatment. If the temporary total disability becomes permanent, most State laws provide weekly benefits either for life or for the duration of the disability.

When the worker is permanently disabled for any type of gainful employment (which occurs in less than 1 percent of all compensable workers'

Table 1.—Estimated workers' compensation benefit payment amounts, by type of benefit, 1987-89

Type of benefit	[In millions]		
	1987	1988	1989
Total	\$27,318	\$30,733	\$34,316
Medical and hospitalization.....	9,912	11,518	13,424
Compensation.....	17,406	19,215	20,892
Disability.....	15,775	17,613	19,171
Survivor.....	1,631	1,602	1,721
Regular programs, total	25,773	29,234	32,837
Medical and hospitalization.....	9,794	11,401	13,299
Compensation.....	15,979	17,833	19,538
Disability.....	15,046	16,956	18,553
Survivor.....	933	877	985
Black Lung program, total	1,545	1,499	1,479
Medical and hospitalization.....	118	117	125
Compensation.....	1,426	1,381	1,354
Disability.....	698	657	618
Survivor.....	729	725	736

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compensation claims), he or she may be eligible for cash benefits under both workers' compensation and the Social Security Disability Insurance (DI) program. The 1965 Amendments to the Social Security Act provide for a reduction in Social Security benefits so that total payments under both programs do not exceed the higher of 80 percent of a worker's former earnings or the total family benefit under Social Security before the offset.²

The Social Security Administration (SSA) has prepared annual estimates of experience under State workers' compensation programs, by type of insurer, since 1942, when it developed methods of estimating the amount of benefits provided under each State program. These annual data were gathered from government and nongovernment sources before they were aggregated at the national level. Emphasis was placed on developing measures of the scope and adequacy of benefits and on measuring interstate variations. More recently, key program indicators³ have been developed to include the proportion of the potential labor force covered, the percentage of wage loss compensated in temporary total disability insurance cases, and the relation of benefit and premium costs to payrolls.

Coverage

Approximately 93.7 million workers were covered by workers' compensation laws in 1989. This figure is about 2.4 million more than the number covered in 1988, reflecting a similar increase in the number of employed workers.

Coverage is compulsory for most private employment except in New Jersey, South Carolina, and Texas. In these States, employers may reject coverage but, in turn, they lose the customary common-law defenses against suits filed by employees. Employees most likely to be exempted from coverage include domestic workers, agricultural workers, and casual laborers. Coverage is also

incomplete among workers in small firms having fewer than six employees, nonprofit institutions, and State and local governments. About 87 percent of all wage and salary workers were covered in 1989, with the extent of coverage varying from one jurisdiction to another.

Laws in 10 States were changed in 1989 primarily to allow coverage of certain persons who were previously excluded. Most newly-covered workers included volunteer firefighters in Connecticut, Maryland, and Utah; peace officers in California and Wyoming were also newly covered. Total payroll for individuals covered under workers' compensation amounted to \$2,115 billion in 1989. This amount was 5.8 percent more than the 1988 level, reflecting the increases in covered employment and average annual wages.

Benefits

Workers' compensation benefit payments exceeded \$34.3 billion in 1989. This amount was about 11.7 percent above the previous year's level and slightly less than the 12.5 percent increase from 1987-88. The amount of benefits paid is largely influenced by medical costs; frequency and extent of injuries and illnesses; changes in State

statutory benefit formulas, maximums (which are affected by changes in average wages), and coverage provisions; and the number of covered workers.

Total benefit payments included \$32.8 billion in payments under the regular programs (all programs except Black Lung) and \$1.5 billion under the Black Lung program. Benefit payments under the regular programs increased 12.3 percent, and the amount of Black Lung benefits declined by 1.4 percent. The decline in Black Lung benefits is expected to continue as older beneficiaries die and a smaller number of new claimants enters the program.

In the past decade, total workers' compensation benefits increased an average of 11.1 percent annually (5.6 percent in constant 1989 dollars) and benefits for the regular programs rose an average of 12.3 percent. Black Lung benefits have declined an average of 1.5 percent annually since 1979.

Types of Payments

Although wage increases were moderate, medical care costs, as measured by the 1989 medical care component of the Consumer Price Index, were 7.7 percent above the 1988 figure. In 1989, about three-fifths of all benefits paid were in cash compensation and about two-fifths were

Table 2.—Percentage change in workers' compensation benefit payment amounts by type of insurer, 1979-89

Period	Total workers' compensation program		Type of insurer (in current dollars)			
	Constant dollars	Current dollars	Private insurers	State and Federal funds ¹		Self-insurers
				Total	Regular	
1979-80	2.2	13.2	14.2	7.7	12.2	22.2
1980-81	1.2	10.5	12.1	6.1	10.4	14.3
1981-82	3.1	9.0	9.8	3.8	8.4	15.8
1982-83	2.9	7.1	7.2	6.1	8.7	8.6
1983-84	7.9	12.0	14.5	6.8	11.7	13.0
1984-85	9.3	12.9	16.3	6.3	10.0	12.0
1985-86	8.2	10.9	12.0	8.8	12.7	10.4
1986-87	6.1	11.1	11.8	8.6	12.3	12.7
1987-88	8.3	12.4	13.3	10.2	14.1	13.2
1988-89	6.8	11.7	13.7	6.5	8.5	12.0
Average annual increase	5.6	11.1	12.5	7.4	10.8	13.3

¹ Excludes Black Lung benefits.

Table 3.—Estimated workers' compensation benefit payment amounts, by State and type of insurance, 1988-89 ¹

[Amounts in thousands]

Jurisdiction	1988				1989				Percentage change in total payments
	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..	\$30,732,783	\$17,512,113	\$7,476,670	\$5,744,000	\$34,316,101	\$19,917,931	\$7,965,170	\$6,433,000	11.7
Alabama	310,568	221,568	...	89,000	380,350	270,350	...	110,000	22.5
Alaska	121,895	97,895	...	24,000	113,007	91,007	...	22,000	-7.3
Arizona	300,887	126,670	118,217	56,000	324,183	136,016	128,167	60,000	7.7
Arkansas	176,814	133,914	...	42,900	195,915	150,915	...	45,000	10.8
California	4,716,305	2,548,616	817,689	1,350,000	5,241,891	2,836,554	905,337	1,500,000	11.1
Colorado	474,482	196,913	205,869	71,700	531,530	212,041	235,489	84,000	12.0
Connecticut	495,535	390,535	...	105,000	586,515	476,515	...	110,000	18.4
Delaware	57,345	42,945	...	14,400	68,246	51,846	...	16,400	19.0
District of Columbia	80,597	64,497	...	16,100	84,039	67,039	...	17,000	4.3
Florida	1,421,550	888,550	...	533,000	1,731,859	1,081,859	...	650,000	21.8
Georgia	580,766	500,766	...	80,000	660,521	561,521	...	99,000	13.7
Hawaii	151,144	111,144	...	40,000	180,359	130,359	...	50,000	19.3
Idaho	86,683	52,030	24,753	9,900	93,020	55,389	27,831	9,800	7.3
Illinois	1,277,476	932,476	...	345,000	1,431,862	1,046,862	...	385,000	12.1
Indiana	244,703	216,703	...	28,000	297,435	263,435	...	34,000	21.5
Iowa	169,464	161,464	...	8,000	190,346	181,346	...	9,000	12.3
Kansas	197,473	166,473	...	31,000	219,948	184,948	...	35,000	11.4
Kentucky	292,872	219,872	...	73,000	326,256	243,256	...	83,000	11.4
Louisiana	565,141	452,141	...	113,000	585,990	468,990	...	117,000	3.7
Maine	314,353	259,853	...	54,500	341,896	282,896	...	59,000	8.8
Maryland	396,734	259,933	76,801	60,000	436,865	281,275	103,590	52,000	10.1
Massachusetts	858,587	787,587	...	71,000	1,078,354	989,354	...	89,000	25.6
Michigan	1,035,014	549,610	70,404	415,000	1,119,598	591,867	82,731	445,000	8.2
Minnesota	469,901	369,454	16,447	84,000	496,933	385,378	21,555	90,000	5.8
Mississippi	154,799	143,299	...	11,500	171,115	158,415	...	12,700	10.5
Missouri	378,777	312,777	...	66,000	423,234	348,234	...	75,000	11.7
Montana	150,436	46,035	⁵ 91,101	13,300	153,292	40,555	⁵ 97,737	15,000	1.9
Nebraska	102,611	86,611	...	16,000	112,383	96,383	...	16,000	9.5
Nevada	218,861	861	185,000	33,000	250,282	1,282	210,000	39,000	14.4
New Hampshire	143,153	124,953	...	18,200	153,947	133,947	...	20,000	7.5
New Jersey	682,437	575,437	...	107,000	760,580	640,580	...	120,000	11.5
New Mexico	196,121	157,121	...	39,000	225,714	173,714	...	52,000	15.1
New York	1,344,539	662,127	432,412	250,000	1,528,136	739,415	493,721	295,000	13.7
North Carolina	328,179	267,179	...	61,000	385,392	313,392	...	72,000	17.4
North Dakota	44,441	124	44,317	...	50,288	145	50,143	...	13.2
Ohio	1,716,339	6,339	1,260,000	450,000	1,816,401	6,401	1,370,000	440,000	5.8
Oklahoma	301,992	166,992	65,000	70,000	312,743	178,743	62,000	72,000	3.6
Oregon	555,769	217,505	245,264	93,000	576,080	236,038	244,042	96,000	3.7
Pennsylvania	1,484,049	1,098,417	⁵ 100,632	285,000	1,819,937	1,316,501	⁵ 123,436	380,000	22.6
Rhode Island	168,322	155,322	...	13,000	199,576	181,576	...	18,000	18.6
South Carolina	207,909	178,909	...	29,000	240,035	207,035	...	33,000	15.5
South Dakota	40,156	34,656	...	5,500	44,296	38,196	...	6,100	10.3
Tennessee	341,270	310,270	...	31,000	389,974	354,974	...	35,000	14.3
Texas	2,461,702	2,461,702	2,843,456	2,843,456	15.5
Utah	115,563	29,201	68,362	18,000	142,193	36,138	83,055	23,000	23.0

See footnotes at end of table.

Table 3.—Estimated workers' compensation benefit payment amounts, by State and type of insurance, 1988- 89¹—Continued

[Amounts in thousands]

Jurisdiction	1988				1989				Percentage change in total payments
	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	
Vermont	43,636	39,636	...	4,000	55,079	50,079	...	5,000	26.2
Virginia	408,904	334,904	...	74,000	465,229	375,229	...	90,000	13.8
Washington	755,478	13,478	600,000	142,000	810,934	15,934	650,000	145,000	7.3
West Virginia	363,391	735	249,656	113,000	375,027	2,646	270,381	102,000	3.2
Wisconsin	422,163	335,163	...	87,000	486,643	386,643	...	100,000	15.3
Wyoming	45,594	751	44,843	...	46,923	1,262	45,661	...	2.0
Federal	2,759,903	...	2,759,903	...	2,760,294	...	2,760,2940
Civilian employee program ⁶	1,253,277	...	1,253,277	...	1,273,744	...	1,273,744	...	1.6
Black Lung program ⁷	1,498,814	...	1,498,814	...	1,478,780	...	1,478,780	...	-1.3
Other ⁸	7,812	...	7,812	...	7,770	...	7,770	...	- .5

¹Data for 1989 preliminary. Calendar-year figures, except that data for Montana, Nevada, and West Virginia, for Federal civilian employees and "other" Federal workers' compensation, and for State fund disbursements in Maryland, North Dakota, and Wyoming, represent fiscal years ended in 1988 and 1989. Includes benefit payments under the Longshoremen's and Harbor Workers' Compensation Act and extensions for the States in which such payments are made.

²Net cash and medical payments paid during 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.

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

⁴Cash and medical benefits paid by self-insurers, plus the value of medical benefits paid by employers carrying workers' compensation policies that do not include standard medical coverage. Estimated from available State data.

⁵Includes payment of supplemental pensions from general funds.

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

Compensation Act.

⁷Includes \$604,522,000 in 1987 and \$594,814,000 in 1988 and \$591,020,000 in 1989 paid by the Department of Labor.

⁸Primarily 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 (P.L. 90-921).

in medical and hospitalization benefits (table 1).

The increases in average wages have resulted in increased statutory maximum weekly benefit levels in most States. All but five States increased maximum weekly payments for temporary total disability in 1989. The average maximum weekly benefit rose 4.5 percent—from \$354.13 in 1988 to \$370.00 in 1989.

The frequency and extent of work-related disability also exerts a major influence on benefit levels. The Bureau of Labor Statistics reports annually on injury rates from on-the-job accidents and illnesses in private industry. Expressed as a rate per 100 full-time equivalent workers (working 40 hours a week, 50 weeks a year), the rate for 1989 remained at the 1988 rate of 8.6.

In 1989, the number of work days lost per lost-workday case was 19.6, compared with 19.1 in 1988 and 16.5 in 1980.⁴

Types of Insurers

Generally, three different methods are available for employers to insure workers for the protection required under workers' compensation laws: private insurance, publicly operated State-insurance funds, and self-insurance (used primarily by employers who have a large number of employees and who are able to provide proof of their financial ability to carry their own risk). In all but six States, employers may buy commercial insurance to provide the required protection for workers. In four of these six States—Nevada, Ohio, Washington, and West

Virginia—employers must either insure with exclusive State-insurance funds or self-insure. In the remaining two States, North Dakota and Wyoming, employers must insure through an exclusive State fund.

In 1989, \$19.9 billion of the \$34.3 billion in benefits was paid through private insurance carriers, \$8 billion through public funds (including \$1.5 billion in benefits under the Federal Black Lung benefits program), and \$6.4 billion through self-insurance. During the 1980's, benefit levels roughly tripled, with the greatest percentage gains occurring in self-insurance and private carrier payments (table 2).

State and Federal funds and self-insured employers each paid about one-fifth of all regular benefits while

private insurance companies paid the remaining three-fifths in 1988 and 1989. The percentage paid by private insurance companies has remained about the same over the past 25 years; that paid by publicly operated funds decreased from 26 percent in 1959 to 20 percent in 1989, and the proportion paid by self-insurance increased from 12 percent to 20 percent during the same period.

Geographical Variations

Total benefits were greater in 1989 than in 1988 in every State except Alaska (table 3). The largest expenditure for benefits was to workers and their beneficiaries in California—\$5.2 billion. More than \$1 billion was also paid in eight other States—Texas (\$2.8 billion), Ohio and Pennsylvania (\$1.8 billion, each), Florida (\$1.7 billion), New York (\$1.5 billion), Illinois (\$1.4 billion), and Massachusetts and Michigan (\$1.1

billion, each). These nine States accounted for \$18.6 billion, or about 55.5 percent of the national total (excluding amounts for Black Lung benefits). The amount of benefit payments made in California, Texas, and Florida accounted for about 30 percent of all regular program benefits, compared with 23.3 percent 10 years ago.

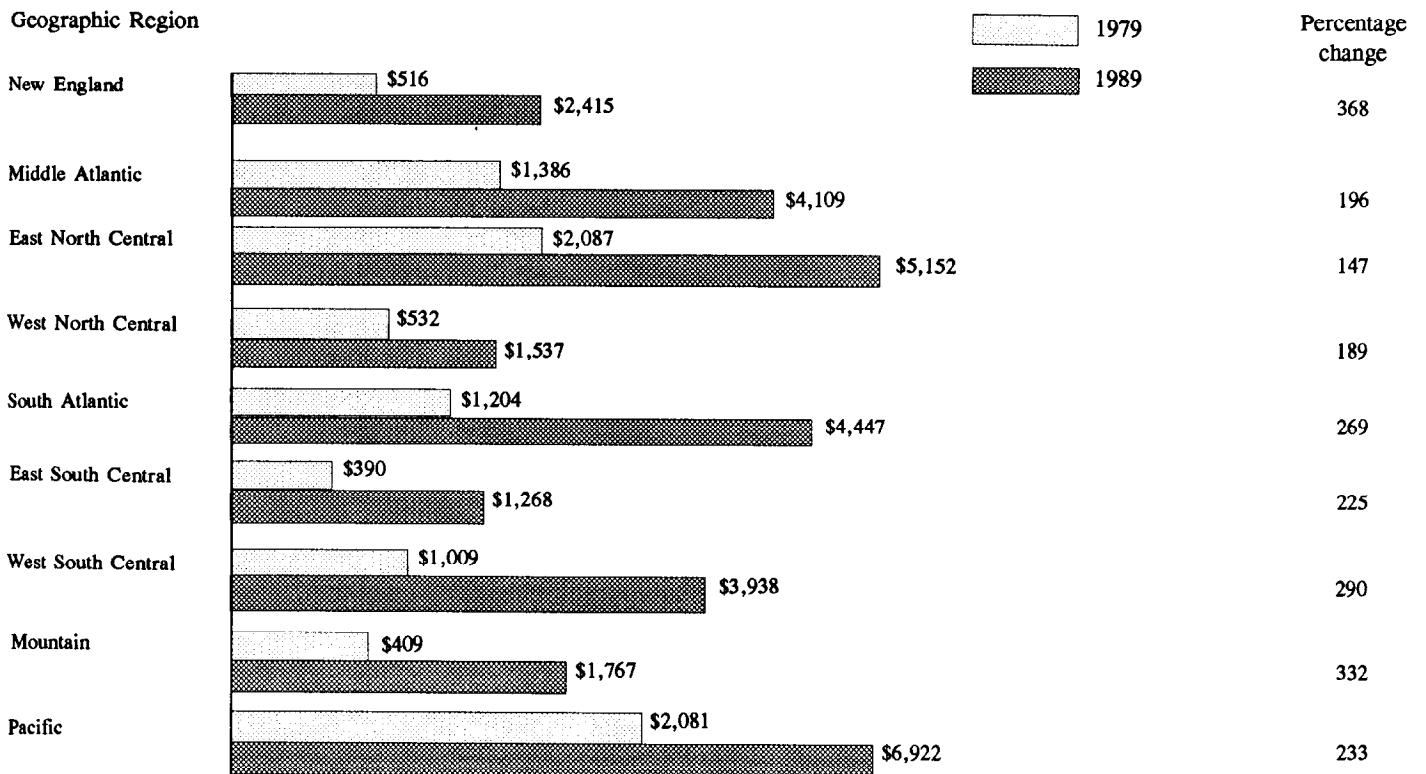
From 1988 to 1989, benefits increased more than 19 percent in the New England States; the next two largest increases were 17 percent in the Middle Atlantic States, and 15 percent in the South Atlantic and East South Central regions. The smallest gains were registered in the East North Central and West North Central regions at 9.9 percent and 9.6 percent, respectively. As can be seen in chart 1, the total amount of benefits paid during the 1980's under the workers' compensation programs in the 51 jurisdictions has increased more than

218 percent. This 10-year increase has been greatest among the New England States (368 percent—or 17 percent annually) and smallest among the East North Central States (147 percent—or 9 percent annually).

Employer Costs

The total costs to employers to protect their workers against financial loss resulting from work-related disabilities in 1989 was \$48.0 billion. This amount was 10.8 percent above the 1988 level (chart 2). Employer costs are premiums paid to insurance companies to pay workers' compensation benefits and to administer claims, including an estimate of the hypothetical premiums of self-insured employers. These premiums or costs reflect the expenses of policy writing, claims investigation and adjustment, allocation to reserves to match increases in accrued liabilities, payroll

Chart 1.—Total amount of workers' compensation benefits and percentage change, by geographic region, 1979 and 1989
[Amount in millions]



auditing, and other administrative expenses and applicable profits. The 1989 costs to employers covered:

- \$31.9 billion in premiums paid to private carriers;
- \$9.2 billion in premiums paid to State funds and for Federal programs; and
- \$6.9 billion in self-insurance costs—benefits paid by self-insurers plus an estimate of administrative costs.

Cost-to-Payroll Ratio

While covered payrolls increased less than 6 percent from 1988 to 1989, employer costs increased at nearly twice that rate. This difference resulted in an increase in the ratio of costs per

\$100 of covered payroll from \$2.16 in 1988 to \$2.27 in 1989. This was the fifth consecutive increase in the cost ratio following four consecutive declines. In 1984, the ratio stood at \$1.66.

Loss Ratio

The relationship of benefits to employer costs is one measure of the effectiveness of workers' compensation programs in providing income-maintenance protection to disabled workers. The proportion of the premium dollar that is returned to the worker as cash or medical benefits is the "loss ratio."

When benefits financed through general revenues are excluded, the loss ratio was at a low of 54 percent in

1980; since 1982 it has moved in a narrow range of 67-71 percent as benefits and employer costs have increased at similar rates. In 1989, the loss ratio was at 69.6 percent, indicating that nearly 70 cents of every premium dollar was returned to the worker or his or her survivors as either benefit payments or medical care reimbursements.

Notes

¹ In this note, all benefit amounts paid under the Longshoremen's and Harbor Workers' Compensation Act are included for the State in which such payments are made.

² Under Federal law, the offset is not applied if State law provides a workers' compensation offset. While 13 States have such provisions, the Omnibus Budget Reconciliation Act of 1981 eliminated the preference for any additional States.

³ For more detailed information, see William J. Nelson, Jr., "Workers' Compensation: 1980-84 Benchmark Revisions," *Social Security Bulletin*, July 1988, pp. 4-21. Information for articles in this series is obtained from four Federal agencies—the Department of Health and Human Services, the Department of Commerce, the Department of Labor, and the Department of Agriculture—and from each of the 50 State agencies and the District of Columbia. Data are also obtained from the A.M. Best Company, the National Underwriters Company, the National Council on Compensation Insurance, and the U.S. Chamber of Commerce.

⁴ *Occupational Injuries and Illnesses in the United States by Industry, 1989*, Bureau of Labor Statistics, U. S. Department of Labor, 1991.

Chart 2.—Estimated annual percentage change in costs to employers to provide workers' compensation coverage, 1979-89

