
Notes and Brief Reports

Workers' Compensation: Coverage, Benefits, and Costs, 1984*

In addition to its research and data collection on the old-age, survivors, and disability insurance program, the Social Security Administration (SSA) regularly follows developments in a number of other programs that are relevant to social security issues and policy questions. Workers' compensation is one such income-maintenance program that relates to social security in a number of ways, particularly disability insurance and Federal black lung benefits. SSA conducts an annual review examining the current experience under the State workers' compensation system. Data are compiled on trends of coverage, aggregate benefits paid, and total employer costs.

This note focuses on the reestablishment of long-term levels of major workers' compensation indicators as the economy grew in 1984. In 1984, employer costs rose by 9 percent after 3 years of little or no rise. Premium growth represented partially an adjustment to reductions in premium rates of the previous few years as employers and States tried to control costs. A more immediate factor raising premium costs was the increase of benefits in 1984. After several years during which the annual percentage increase in aggregate benefit payments generally was less than in the previous year, 1984 witnessed a rise of 11.0 percent over 1983 payments, compared with an 8.2 percent increase in the year before.

Paralleling the growth in benefits and employer costs, the number of workers covered under the system also grew during 1984. The number of workers covered increased by 5.2 percent in 1984, a faster rate of growth than in any other year since 1973. Most of this growth was a direct reflection of the expanding economy, including sharply rising employment. National levels and trends in coverage, benefit payments, and costs are discussed below as well as individual State benefit experience and legislative developments.

Coverage

About 82.6 million workers were protected under

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workers' compensation programs in 1984. This number was 4.1 million more than in 1983, or 5.2 percent higher. Previous annual percentage changes during the 1980-83 period were 0.3 percent for 1980, 0.8 percent for 1981, -0.2 percent for 1982, and 0.9 percent for 1983.

An expanding economy in 1984 accounted almost entirely for the growth in workers' compensation coverage. Civilian wage and salary employment from 1980 through 1983 fluctuated narrowly between 90.0 million and 91.1 million each year. In 1984, it jumped to 95.1 million.

Legislative coverage provisions were amended in 1983 and 1984 in some States. In particular, more farm workers were provided protection under the State laws of Maryland, North Carolina, and Virginia. But these changes and other amendments had limited overall impact. As a result, the estimated proportion of employed workers with protection under workers' compensation was 86.8 percent in 1984—about the same as it has been since the early 1970's.

Payroll for workers covered under workers' compensation totaled \$1,516 billion in 1984. As with coverage, the 1984 payroll increased notably over the 1983 amount compared with the annual change in each of the previous few years. Payrolls for 1984 were 10.1 percent above 1983 levels, whereas the annual increments in 1982 and 1983 had been 5.0 percent and 5.2 percent, respectively. The large rise in 1984 payrolls was attributable to the growth in the number of workers covered.

The other factor affecting payroll levels, the average wage per worker, grew at a similar rate as in 1983, but well below corresponding annual changes in 1980-82. The average wage per covered worker was \$18,356¹ in 1984, or 4.6 percent more than the 1983 level. Previous increments were 8.9 percent in 1980, 9.4 percent in 1981, 7.1 percent in 1982, and 4.9 percent in 1983. The relationship of covered payrolls under workers' compensation to all wage and salary disbursements was 84.7 percent—a decrease of 1.9 percent from the series high point of 86.6 percent in 1976.

Benefit Trends

Workers' compensation benefits paid in 1984 were

¹Wages reported here are those for employees covered by unemployment insurance, the closest available measure for estimating wages covered under workers' compensation programs.

\$19.5 billion (table 1). This total included \$17.9 billion in regular² program benefits and \$1.6 billion in Federal black lung program payments. As can be seen from table 1, benefits under regular programs rose substantially over the 1983 level (by 12.5 percent) while black lung benefits declined (by 3.0 percent). It is expected that the black lung component will decline further. The black lung program represented 20.5 percent of the total compensation programs in 1973, its highest proportion relative to regular workers' compensation. In 1984, black lung payments were 8.4 percent of the total. This proportion is expected to drop to 3 percent or less as the parts of the black lung program administered by the Labor Department and the Social Security Administration are reduced through attrition in the number of beneficiaries. The part administered by SSA is a closed program with no new cases replacing those who leave the benefit rolls. Approval rates and the number of awards administered under the Labor Department program have fallen each year since 1980.

Aggregate regular program payments increased at a brisker pace in 1984 than in the previous 2 years, even though inflationary effects on wages (and hence on benefits awarded) continued to slacken. The average statutory maximum weekly benefit amount for temporary total disability rose to \$303.42 in 1984, or 6.9 percent above the 1983 level (the same rate of increase occurred for the 1982-83 period). The national average maximum weekly benefit would have risen by only 5.2 percent in 1984 if the two largest States, California and New York, had not raised their benefits statutorily by greater amounts than wages had risen during the year. (In most States the maximum benefit

²References to "State" or "Regular" programs pertain to programs in the 50 States, the District of Columbia, the workers' compensation program for Federal employees, and the longshore workers program, unless specifically noted otherwise.

Table 1.—Estimates of workers' compensation payments, by type of benefit, 1983 and 1984

Type of benefit	Amount of payments (in millions)		Percentage change
	1983	1984	
Total	\$17,589	\$19,529	11.0
Regular	15,898	17,888	12.5
Black lung	1,691	1,641	-3.0
Medical and hospitali- zation	5,690	6,370	12.0
Regular	5,569	6,262	12.4
Black lung	121	108	-10.7
Compensation	11,899	13,159	10.6
Regular	10,329	11,626	12.6
Black lung	1,570	1,533	-2.4
Disability	10,389	11,569	11.4
Regular	9,519	10,746	12.9
Black lung	870	823	-5.4
Survivor	1,510	1,590	5.3
Regular	810	880	8.6
Black lung	700	710	1.4

risers automatically each year in proportion to wage increases.)

Changes in incidence and severity of occupational injury and diseases are another major factor influencing the level of benefits paid for workers' compensation. Data are available from an annual survey by the Bureau of Labor Statistics (BLS) which shows trends in the extent of workplace accidents and diseases. As reported by the BLS,³ the number of on-the-job injuries and illnesses per 100 full-time equivalent workers was 8.0 in 1984, up from 7.6 in 1983. Prior to 1984, the rate had declined irregularly⁴ from 10.4 percent in 1974. The measure of severity used here (the average number of lost workdays for each worker who lost time due to an occupational disability) was 17.2 percent in 1984, up slightly from 17.0 in 1983. The increase in the extent of workplace disability during 1984 helps account for the growth of benefits paid in that year.

Another measure of trends in the workers' compensation system is the relationship between benefits paid and payrolls. This ratio offers a means of evaluating the role of workers' compensation benefits as one of the various employee benefits that workers receive along with direct wages. The benefit-payroll ratio grew rapidly in the 1970's, and by a slower pace thus far in the 1980's. In 1984, benefits were \$1.20 for every \$100 of payroll, or 2 cents more than in 1983.

Since benefit formulas and statutory coverage provisions have not noticeably expanded the level of protection under workers' compensation in the 1980's, the continued rise in the benefit-payroll ratio most probably is due to other factors. The ratio, for example, is affected by changes in industry and occupational composition of the economy, by differential growth among States with different benefit formulas and wage levels, as well as other factors, any of which can affect the benefit-payroll ratio.

Types of Benefits and Insurers

Cash benefits are payable under workers' compensation to replace lost wages during periods of temporary or permanent total disability and to provide compensation for partial disabilities. Cash benefits are also payable to survivors of workers who die because of work-related causes. In addition, workers' compensation pays for medical care and hospitalization in connection with these workplace disabilities. (Medical benefits may be paid even if no cash award is made.) In 1984, \$11.6 billion or 65.0 percent was paid in cash benefits under the regular programs (excluding black lung). Most of these payments were to disabled workers, and the remainder were to survivors. The

³Published in the BLS "News" release (USDL 85-483), November 13, 1985.

⁴The annual rate from 1974 to 1983 went down each year or increased by 0.1 point.

share of the workers' compensation going to survivors was 4.9 percent in 1984, compared with 5.1 percent in 1983. This slight decrease was typical of the slow decline experienced in the 45 years for which these data have been compiled. In 1939, survivor benefits were 12.8 percent of the total. The declining share of survivor benefits has been approximately matched by a similar increase in the share going to disabled workers (from 51.1 percent in 1939 to 60.1 in 1984). In contrast, medical benefits have continued to represent approximately one-third of regular program benefits throughout the series.

Unlike most other social insurance programs, workers' compensation permits employers to choose among different insurance mechanisms in order to fulfill their statutory obligation. In all but six States, employers may buy commercial insurance to provide the required protection to workers; in about one-third of the States, employers may insure through a publicly operated State fund; and in all but three States the employer may qualify to assume direct responsibility for payments of its workers' compensation costs by self-insuring the risk. Of the \$19.5 billion in benefits paid in 1984, 54.3 percent were private insurance payments, 27.1 percent were State and Federal fund payments, and the remaining 18.6 percent were payments by self-insurers (table 2). As can be seen in table 3, the shares of benefits paid by type of insurance for regular programs (that is, excluding the Federal black lung program) have shown an interesting pattern over the years.

After a 20-year period of growth, private insurance has accounted for a stable three-fifths proportion of workers' compensation benefits paid since the early 1960's. The share paid by State funds, in contrast, declined slowly and irregularly to about one-fifth of the total by 1984. And in yet another pattern, the share of self-insurance benefit payments in the 1980's is about one-fifth, slightly above that before World War II. From 1939 through 1984, the proportion of workers' compensation payments made by self-insurers first declined and then rose gradually. The most recent period (from the 1970's) has been dominated by the restructuring of private insurance pricing procedures and by the growth of self-insurance, as accelerating premium costs caused many employers to look for alternative ways to control costs.

Is a new trend in workers' compensation insurance evolving? In 1983, Minnesota established a competitive State fund, the first new one in 50 years. In 1985, Hawaii also established a competitive State fund. And, in reexamining their workers' compensation programs, a number of other States have been considering the option of establishing a State fund. It will be of interest to observe whether this recent spurt of attention to State funds will change the role of that sector.

Interstate Variation

As in the past, the eight States that pay the greatest aggregate amount of benefits⁵ accounted for a little over one-half (\$8.9 billion) of the national total in 1984, excluding Federal programs (table 2). The 1984 percentage remained at the 1981-83 level of 53 percent. This stability was notable in light of the declines experienced in most years throughout the 1970's, from about 60 percent at the beginning of that decade. Benefits in the eight States accounting for the lowest aggregate payments under workers' compensation⁶ amounted to \$342 million, or 2 percent of the total.

The accelerated rate of growth in benefit payments in 1984 over 1983, compared with the pace from 1982 to 1983, is reflected in the distributions recorded in table 4. Fewer States experienced declines in benefit payments from 1983 to 1984 than from 1982 to 1983. Benefits rose by at least 10 percent in 37 States during 1984, but only in 22 States during 1983. Correspondingly, in terms of covered workers, 1.7 percent were in States with declines in aggregate payments during 1984; 19.3 percent were in such States during 1983. In 1984, 73.2 percent were in States with increases of benefit payments of at least 10 percent, compared with 46.5 percent in 1983.

As might be expected, the diversity in benefit growth trends is evident in 1984 among the geographic divisions. Benefit payments rose at an annual rate of 16.8 percent in the Pacific States,⁷ compared with the United States' average of 12.5 percent (excluding black lung benefits). The smallest amount of growth in 1984 was the 7.0 percent average increase in the East North Central Division.⁸ The Pacific States and those in the East North Central area experienced the same distinction in growth in 1983.

Longer-term patterns are also evident in these areas. Reflecting higher increases than the rest of the country in total benefits paid, the Pacific States accounted for 17.9 percent of the United States benefit payments in 1974 and 21.5 percent by 1984. The share of East North Central States shrank from 21.3 percent to 16.5 percent over the same period, reflecting lower than average benefit growth for most of those years. As noted earlier in this series, differential growth in the labor force geographically has probably been the single most important factor to explain these differences in aggregate benefit growth.

Employer Costs

In 1984, premiums paid by employers (including

⁵California, Florida, Illinois, Michigan, New York, Ohio, Pennsylvania, and Texas.

⁶Delaware, Idaho, Nebraska, North Dakota, South Dakota, Utah, Vermont, and Wyoming.

⁷Alaska, California, Hawaii, Oregon, and Washington.

⁸Illinois, Indiana, Ohio, Michigan, and Wisconsin.

Table 3.—Workers' compensation benefits, by type of insurer, selected years, 1939–84

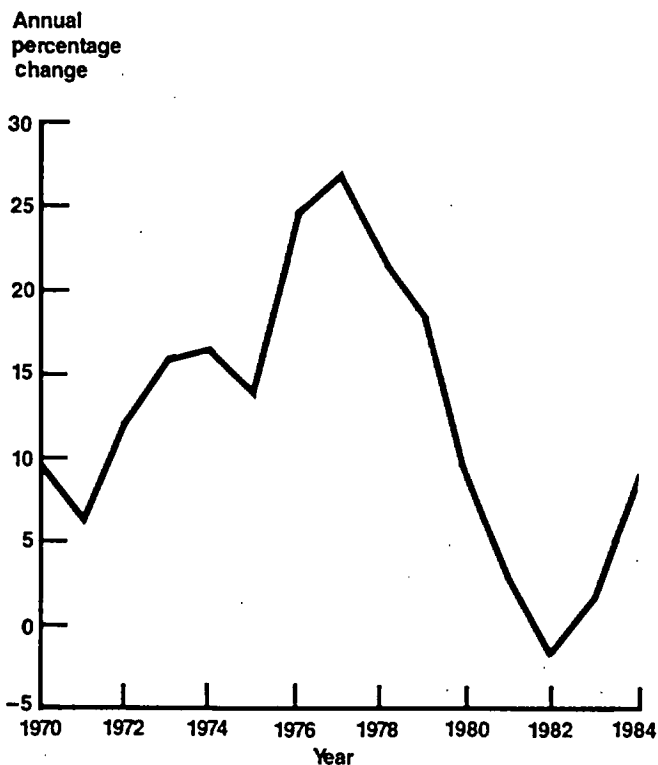
Selected years	Total		Percent of benefits paid—		
	Amount (in billions)	Percent	Private insurance	State and Federal funds	Self-insurance
1939	\$0.2	100.0	52.0	29.2	18.8
1960	1.3	100.0	62.5	25.1	12.4
1973	4.1	100.0	61.9	23.5	14.6
1983	15.9	100.0	58.3	21.2	20.5
1984	17.9	100.0	59.3	20.4	20.3

Table 4.—Distribution of States and workers by percentage change in workers' compensation benefits, 1982–83 and 1983–84¹

Percentage change in benefits	Number of States		Percentage distribution of covered workers	
	1982–83	1983–84	1982–83	1983–84
Total	52	52	100.0	100.0
Decrease	6	2	19.3	1.7
Increase:				
0.0– 4.9	9	4	12.8	8.2
5.0– 9.9	15	9	21.4	16.9
10.0–14.9	11	17	31.9	42.3
15.0–19.9	6	15	7.7	29.0
20.0 or more	5	5	6.9	1.9

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

Chart 1.—Annual increases in workers' compensation employer costs,¹ 1970–84



¹Direct premiums written

thetical premiums among self-insurers) reached \$25.1 billion. This amount was 9.0 percent above the corresponding 1983 total, following a 1.8-percent rise from 1982 to 1983. These increases represent a sharp reversal in direction of rates of change in employer costs, especially in 1984, compared with the previous several years. As chart 1 shows, after 1977, workers' compensation costs to employers increased at a slower pace each year than in the year before, culminating in 1982 when there was no increase—instead costs were lower than in 1981.

The increases in premiums paid in 1983 and 1984 can most likely be attributed to an adjustment being made to the major decline in growth rates from 1977–82. In the 1977–82 period, insurers responded to pressure by employers and State regulators to contain workers' compensation costs. In some cases, the zeal to reduce premium rates may have resulted in premium levels insufficient to meet continued growth in benefit outlays. In any event, the actual decline in the aggregate premiums written in 1982 was most unusual. Only in one other year in this series had an annual decline occurred—the 0.4 percent decline from 1948 to 1949.

Workers' compensation premiums consist of amounts paid to private insurers, to public funds (State and Federal funds including the share of the Federal black lung program paid for by employers), and equivalent hypothetical amounts paid by self-insurers (table 5).

Both private carriers and State funds experienced a decline in premiums from 1980 through 1982. The premium amounts shown for Federal employees' compensation and for self-insurers are, of course, hypothetical premiums based largely on benefit expenditures. These estimated premiums could be expected to have somewhat different patterns than private and State insurance premiums, which are required to be actuarially funded.

Employer costs as a proportion of payroll declined by less than 1 cent to \$1.66 per \$100 of covered payroll in 1984. From the all-series high of \$1.96 in 1980, the ratio has declined every year, but by a smaller amount each year. The 1983 to 1984 minimal change strongly

Table 5.—Workers' compensation premiums paid, by type of insurer, 1980, 1982, and 1984

Year	Premiums paid (in millions)				
	Total	Private carriers	State funds	Federal programs ¹	Self-insurers ²
1980	\$22,265	\$15,743	\$3,008	\$1,142	\$2,372
1982	22,642	15,398	2,640	1,509	3,095
1984	25,104	16,633	3,005	1,569	3,897

¹Includes Federal employee compensation program and the portion of the Federal black lung program financed from employer contributions.

²Benefit payments plus 5–10 percent (the estimated cost of administration).

suggests that the decline in this ratio is ending. As might be expected, the trend in this series from 1970 onward resembles that of the percentage changes in the absolute cost totals shown in chart 1. The cost-payroll pattern, however, has lagged behind by a few years in reaching a peak and in reaching the bottom of the decline.

Since benefit payments continued to increase at a faster pace than costs in 1984, as has also been true each year from 1978, the ratio of benefits to costs again increased, to 72.7 percent. This ratio, also called the loss ratio, reached a new peak since it has been estimated by SSA from 1950. Again, the pace seems to be slackening. Nevertheless, the 1983 to 1984 change was 2.2 percentage points, larger than were annual changes before the mid-1970's generally. The rising loss ratios in the 1980's are understandable in terms of the States' attempts to restore balance in the system by reversing premium growth, establishing more rate competition, and tightening claims administration.

Loss ratios for private insurers and State funds of the workers' compensation system present somewhat varied results in 1984. For private carriers, the 1984 loss ratio based on benefits paid and premiums written was 63.7 percent, representing a growth of 3.5 points from the 1983 level. On the other hand, the loss ratio for private industry on an incurred basis (taking into account future

obligations), grew unexpectedly fast, from 69.8 percent in 1983 to 80.4 percent in 1984. The loss ratio on an incurred basis (losses incurred and premiums earned) is traditionally higher than that based on cash flows (benefits paid and premiums written). In 1984, the loss ratio was 16.7 points higher.

The loss ratio for the 18 State funds combined was 87.6 percent in 1984. This level represented a drop from 90.4 percent in 1983, which was the high point in the series. The ratio had risen each year after 1978; the reversal of direction during 1984 evidently shows the influence of the same factors causing cost and cost-payroll figures to moderate in 1984.

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 have averaged about 9-11 percent in the 1980's. Dividends as a percent of earned premiums averaged 10.7 percent in 1984.⁹

⁹The 10.7 percent figure reflects experience for all companies included in the 1984 Insurance Expense Exhibit of the National Council on Compensation Insurance.