

# Notes and Brief Reports

## Workers' Compensation Coverage, Payments, and Costs, 1974\*

The 17.3-percent rise in 1974 of cash and medical care benefits under workers' compensation programs (excluding the temporary Federal "black lung" program) was the highest annual change since 1940, the first year for which the Social Security Administration has compiled data. The year was also notable for the establishment of an Interdepartmental Workers' Compensation Task Force by the President. The task force was set up to provide technical assistance to the States in improving their coverage, cash and other benefits, and data collection systems, as well as in evaluating the progress of the States toward meeting goals proposed in a White Paper issued by the President in 1974.<sup>1</sup>

The substantial rise in benefits paid during 1974 was attributable to various forces, among them the impetus to improve State workers' compensation coverage and benefits provided by the White Paper, the Task Force, and congressional bills on workers' compensation benefit standards, as well as to the effect of rapidly rising wage levels, upon which benefits are based, and medical care costs.

### COVERAGE

The number of workers protected by workers' compensation laws rose from 65.7-66.1 million in 1973 to 67.6-68.0 million in 1974. This 2.9-percent rise was well below the 6.0- and 4.5-percent annual increases recorded in the previous 2 years, with the slow growth in the employed labor force accounting for the slackened pace. The growth from 1973 to 1974 was 1.9 percent, just a little

more than half the annual rate of increase for 1972 and for 1973.

Nevertheless, the increase in the number of workers protected by work injury laws was notable because 600,000 of the addition of 1,900,000 reflected extensions of coverage under State legislation. Under the laws passed in 1973—the full impact of which were not felt until 1974—and the 1974 legislation with 1974 effective dates—11 States reduced or eliminated size-of-firm restrictions on coverage, 10 made coverage mandatory for employers and employees, nine added hired farm employment at least in part, Kansas and Missouri substantially increased the number of State and local government workers protected, and a number of States broadened coverage for domestic workers and other small groups.

Primarily because of State legislative changes, the proportion of workers covered by these programs continued to rise and reached 87.3 percent in 1974. This proportion has been going up irregularly since the first half of the 1960's when it hovered around 80 percent.

Payrolls covered by workers' compensation also hit a new high in 1974 as average wage levels rose 8 percent—the largest increase since at least 1960. The estimated covered payroll for 1974 was \$624-627 billion, representing almost 86 percent of all wage and salary disbursements, or two percentage points above the 1973 level. Covered payrolls had been 84-85 percent of total payrolls for all previous years back to 1959.

### BENEFITS

In 1974 cash payments and medical services under all work injury laws rose by \$610 million to \$5.7 billion, or 12 percent above the previous year's amount. Although, for the entire period of the series, both the dollar and percentage figures represent a substantial increase, they were much less than the \$1.1 billion (or 26 percent) increment between 1972 and 1973. The Federal black lung benefit program was the dominant factor accounting for the difference in growth patterns for the 2 years. Unlike the growth that marked the 1971-72 and 1972-73 changes,<sup>2</sup> benefits under

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<sup>1</sup> *White Paper on Workers' Compensation—A Report on the Need for Reform of State Workers' Compensation*, (Department of Labor, Department of Commerce, Department of Health, Education, and Welfare, and Department of Housing and Urban Development), May 13, 1974.

<sup>2</sup> Benefit payments under the black lung program reached their peak (\$1.0 billion) in 1973.

that program declined almost 9 percent from 1973 to 1974. Consequently, if black lung benefits are excluded, the benefit payments under State workers' compensation programs (and the Federal programs) is seen to have risen in 1974 by 17 percent—a little higher than the 16 percent in 1973, which had been the largest rate of increase since 1940.

One element contributing to the 1974 upswing was the continued inflation of the wages upon which benefits are based. Average wages had risen 5–6 percent each year from 1968 through 1973, but in 1974 they went up 8 percent.

Another major factor causing benefits to rise rapidly was the effect of higher statutory benefit amounts effective in 1973 and 1974. In all but three States, for example, the statutory maximum weekly benefit amount for temporary total disability was increased in 1974 or was raised in 1973 with the full effect occurring in 1974. In 24 States and in the Federal employees' program the higher maximums were a result of statutes that automatically raise weekly benefits periodically, generally in line with increases in the State average weekly wage. Benefits rose in 24 other States by specified amounts through regular legislation.

Among the 24 jurisdictions most recently providing ad hoc increases, new legislation in four States (Delaware, Florida, Hawaii, and North Carolina) provides that future benefit adjustments will be provided automatically. The majority of States providing automatic benefit increases state the maximum as two-thirds of the State's average weekly wage. The legislatures have been raising the applicable percentage, however, and by the end of 1974 eight jurisdictions had legislated maximum benefit amounts of more than two-thirds of average weekly wages, generally 100 percent.

A number of States also liberalized benefits paid for disabilities other than total and for death. Limitations on medical care were reduced or eliminated in several States; by the end of 1974, only four States still provided less than full dollar coverage without time or monetary limits on medical care for accidental injury.

Another factor in the growth of workers' compensation benefits in 1974 was no doubt the spurt in costs for medical care. The medical care component of the Consumer Price Index of the

Bureau of Labor Statistics rose 9.3 percent in 1974. This increase was the greatest registered for any single year since the end of World War II. As the following tabulation shows, medical

Type of payment	Amount (in millions)		Percentage change
	1974	1973	
Total	\$5,702	\$5,092	12.0
Regular	4,746	4,047	17.3
Black lung	956	1,045	-8.5
Medical and hospitalization	1,173	1,470	17.7
Compensation	3,972	3,622	9.7
Regular	3,016	2,577	17.0
Black lung	956	1,045	-8.5
Disability	3,307	2,982	11.6
Regular	2,701	2,312	16.8
Black lung	606	650	-6.8
Survivor	665	660	.8
Regular	315	265	18.9
Black lung	350	395	-11.4

<sup>1</sup> Includes \$1 million paid under the "black lung" program for medical services.

and hospitalization costs amounted to an estimated \$1.7 billion and accounted for about 30 percent of total workers' compensation payments. If black lung benefits are excluded, somewhat more than one third (37 percent) of the total are for medical care. This proportion has been fairly stable for many years.

Similarly, with the estimated \$350 million in black lung payments to survivors excluded, the \$315 million paid under regular programs in cash compensation to survivors of workers killed on the job were less than 7 percent of all workers' compensation benefits, about the same proportion as that for a number of years.

As in recent years, the distribution of benefits in 1974 by type of insurance was stable if the black lung program is excluded. Private insurers accounted for 63 percent of benefits, government funds 23 percent, and self-insurers almost 15 percent. When the black lung payments are included, however, the proportion of benefits paid through private insurers is only 52 percent, since in 1974 these payments still represented such a large part of the total.

#### Interstate Variation in Benefit Payments

For the second consecutive year, benefit payments under workers' compensation programs rose in every State—an indication that the factors causing a high national average increase in bene-

fits from 1973 to 1974 were widespread. The 10 largest States<sup>3</sup> paid 61 percent of all benefits (excluding black lung payments) in 1974—the same proportion as in 1973. This proportion is slightly above the percentage of covered workers employed in those States (57 percent). Eight of the 10 States paid at least \$200 million in benefits during 1974, as the accompanying table shows.

Twenty-two States, with 36 percent of the covered labor force, paid benefits in 1974 that were at least 20 percent higher than the 1973 level, as the figures that follow show. Fifteen of

Percentage change in benefits	Number of States <sup>1</sup>		Percentage distribution of covered workers <sup>1</sup>	
	1973-74	1972-73	1973-74	1972-73
Total	52	52	100.0	100.0
Decrease	0	0	0	0
Increase				
Less than 5	2	0	4	0
5.0-9.9	3	9	13.0	21.6
10.0-14.9	11	15	33.4	23.9
15.0-19.9	14	16	17.4	35.2
20.0 or more	22	12	35.9	19.4

<sup>1</sup> Includes the program for civilian employees of the Federal Government and the District of Columbia.

the States with high outlays were concentrated in the southern and central parts of the country. In particular, the South Atlantic Coast States, starting with Delaware, down through the Gulf States as far west as Texas, averaged increases of well over 20 percent. As they have for several previous years, the Middle Atlantic States<sup>4</sup> had a modest rate of benefit growth in relation to other areas—11 percent. New England also registered an 11-percent increase.

The high growth of benefits among the Southern coastal States in 1974 was accompanied by significant statutory improvements in many of those States. The largest rise in benefit outlays during 1974 was recorded in the District of Columbia (44 percent), directly attributable in large part to the higher maximum weekly benefit amount and the statutory improvements resulting from 1972 amendments to the law. At the other end of the range, 1974 workers' compensation benefits for Montana were only 0.5 percent above the 1973 level.

<sup>3</sup> California, Florida, Illinois, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas.

<sup>4</sup> New Jersey, New York, and Pennsylvania.

## COST RELATIONSHIPS

For the third successive year, the cost of workers' compensation to employers rose in 1974 as a percentage of covered payroll. From \$1.12 per \$100 of payroll in 1970 and 1971, costs moved up to \$1.24 in 1974, reaching once again the high levels of pre-World War II. Although costs in terms of cents per \$100 of payroll show relatively little variance (the low point was 89 cents per \$100 in 1959), the fact that this figure has been inching up in recent years clearly indicates the greater expenditures for workers' compensation today. These data, like all the others referred to in this section, exclude the cost of the black lung program. The black lung program is financed from general revenue rather than insurance premiums and so should not be considered in examining the direct costs of workers' compensation to employers.

In absolute dollars, employers spent almost \$1,100 million more in 1974 than in 1973 to insure or self-insure their work-injury risks. The estimated \$7,780 million spent in 1974 consists of (a) \$5,600 million in premiums paid to private insurance companies; (b) \$1,440 million in premiums paid to State insurance funds (for the Federal programs financed through congressional appropriations, these "premiums" are the sum of benefit payments and the costs of the administrative agency); and (c) about \$740 million as the cost of self-insurance (benefits paid by self-insurers, with the total increased 5-10 percent to allow for administrative costs).

Mirroring the notable growth in cost-payroll ratios in 1974, the ratio of benefits to payrolls also climbed—from 71 cents for every \$100 in payroll in 1973 to 75 cents in 1974. During the period included in this series, the ratio was at its lowest (51 cents per \$100) in 1948 and has gone upward in spurts over the next 26 years.

With benefits rising faster than costs, the loss ratio (benefits as a percent of premiums) for all types of insurance combined rose slightly from 59.8 percent in 1973 to 60.6 percent in 1974. The loss ratio has varied within one percentage point since 1970 and has been well within the 57-64 percent range for most of the years since 1950.

For private carriers alone, the ratio of direct losses paid to premiums written was 53.0 percent, up from the 51.6-percent figure for 1973. The

private carrier data based on incurred losses (which includes amounts set aside to cover liabilities from future claims payments) show an

increase from 68.8 percent in 1973 to 72.0 percent in 1974

Counter to the private carrier experience, State

Estimates of workers' compensation payments by State and type of insurance, 1974 and 1973<sup>1</sup>

(In thousands)

State and program	1974				1973				Percentage change in total payments, 1974 from 1973
	Total	Insurance losses paid by private insurance carriers <sup>2</sup>	State and Federal fund disbursements <sup>3</sup>	Self insurance payments <sup>4</sup>	Total	Insurance losses paid by private insurance carriers <sup>2</sup>	State and Federal fund disbursements <sup>3</sup>	Self insurance payments <sup>4</sup>	
Total	\$5 702,118	\$2 069,522	\$2,040 963	\$691,633	\$5,092 220	\$2,513 552	\$1,987,124	\$591,544	12.0
Alabama	44 798	30 898		13 900	35,054	24,174		10,880	27.8
Alaska	13,156	12 296		860	10 468			685	25.7
Arizona	64 734	31 167	28,837	4 730	56 232	9 783		4,400	15.1
Arkansas	35 781	30,181		5 600	28,777	25,014	26,818	4,500	24.3
California	617 890	402,542	139 348	76,000	548 596	357,995	123,231	67,370	12.6
Colorado	36,964	15,174	18,390	3,400	29 089	11 882	15,382	2 725	23.3
Connecticut	58 131	53,231		4 900	52 161	47,771		4 390	11.4
Delaware	9 393	7 093		2 300	7,938	5,988		1,950	18.3
District of Columbia	18,405	17 105		1,400	12,800	12,110		750	43.9
Florida	210,399	188 599		21,800	160,935	144,205		16,730	30.7
Georgia	65,101	55,601		9 500	50,982	43,572		7,410	27.7
Hawaii	22,114	17 114		5 000	19,500	15,500		4,000	13.4
Idaho	17 558	12 690	2,668	2,200	14,448	10,084	2 561	1,733	21.5
Illinois	219 679	184,479		35,200	178 798	150 108		28,690	22.9
Indiana	55,558	46 808		8,750	48 513	40,413		8,100	14.5
Iowa	31,515	26,265		5 250	24 598	20 498		4 100	28.1
Kansas	27 296	25 096		2,200	23,319	21,409		1,910	17.1
Kentucky	49 669	43 169		6,500	39 972	34,762		5,210	24.3
Louisiana	103,808	90 008		13 800	83 235	72,375		10,860	24.4
Maine	16,324	14,224		2,100	13,694	11,904		1,790	19.2
Maryland	68,350	52,300	4,550	11 500	58,668	44 935	3,913	9 820	16.5
Massachusetts	132 627	123 627		9 000	122 347	114 027		8 320	8.4
Michigan	311 781	180,636	10,845	120,400	273,530	158,141	9,769	105,620	14.0
Minnesota	76 399	64 169		12 200	62 769	52 739		10,030	21.7
Mississippi	23,845	21,945		1 900	21,607	19,807		1 700	10.9
Missouri	56 899	48 669		8,200	51,512	44,062		7 450	10.4
Montana	13,431	6 432	6,036	1,063	13 361	5 634	6,146	1,681	6.6
Nebraska	17,852	15 982		1,900	13 664	12,114		1,450	31.8
Nevada	21,620	63	21 217	1,900	18,027	55	17,657	315	19.9
New Hampshire	14,113	13,813		300	11,532	11,282		250	22.4
New Jersey	177,607	160,887		17 020	156 719	142,209		14,510	13.3
New Mexico	18 060	15,260		2,800	15,456	13 606		1,850	16.8
New York	369,929	235,739	87,390	46,800	342,374	218 002	81,012	43,860	8.0
North Carolina	48 862	42,862		6,000	40,555	35,415		5,140	20.5
North Dakota	5 842	12	5,830		5 713	16	5 697		2.3
Ohio	358,874	1,374	329 000	98 500	316 191	594	228,697	86 900	13.5
Oklahoma	52,271	40,857	5,034	6,380	40 680	32 448	4,632	3,600	28.5
Oregon	92 598	33 298	54,130	5 200	78,465	26,528	47 490	4 447	18.0
Pennsylvania	200 238	114,338	31,000	54,900	173 929	96,983	30 146	46,800	15.1
Rhode Island	16,200	15,330		870	14 792	13,992		800	9.6
South Carolina	25 838	23,068		2 770	21,842	19,502		2 340	18.3
South Dakota	5 316	4,626		690	4 428	3 548		880	20.1
Tennessee	56,279	51,179		5,100	48,449	44 049		4,400	16.2
Texas	290,402	290 402			227,057	227 057			27.9
Utah	13,053	3,301	7,552	2,200	10,998	2 743	6,425	1,830	18.7
Vermont	5 787	5,357		430	4 695	4 345		350	23.3
Virginia	54 521	42 921		11,600	45,050	35 470		9,580	21.0
Washington	103 281	4,538	86,943	11 800	87,124	3 447	75,187	8,490	18.5
West Virginia	58,045	107	42 458	15 480	48,479	79	36,502	11,898	19.7
Wisconsin	64 352	53,652		10,700	56,469	47,059		9,410	14.0
Wyoming	3,433	78	3 355		3 010	40	2 970		14.1
Federal work injury programs									
Civilian employees <sup>5</sup>	261,768		261,768		207 904		207 904		25.9
"Black lung" benefits <sup>6</sup>	955,767		955,767		1,045 162		1 045,162		-8.6
Other <sup>7</sup>	8,845		8,845		9 803		9,803		-9.8

<sup>1</sup> Data for 1974 preliminary Calendar-year figures, except that data for Montana and West Virginia, for Federal civilian employee and "other" Federal work injury programs, and for State fund disbursements in Maryland, Nevada, North Dakota, Utah, Washington, and Wyoming represent fiscal years ended in 1973 and 1974. Includes benefit payments under the Longshoremen's and Harbor Workers' Compensation Act and Defense Bases Compensation Act for the States where such payments are made.

<sup>2</sup> Net cash and medical benefits paid during the calendar year by private insurance carriers under standard work injury policies. Data primarily from A. M. Best Company, a national data collecting agency for private insurance.

<sup>3</sup> Net cash and medical benefits paid by State funds, compiled from State reports (published and unpublished), estimated for some States.

<sup>4</sup> Cash and medical benefits paid by self insurers, plus the value of medical

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

<sup>5</sup> Includes payment of supplemental pensions from general funds.

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

<sup>7</sup> Includes \$3,809,000 payments by the Department of Labor primarily payments made to dependents of reservists who died while on duty in the Armed Forces to individuals under the War Hazards Act, the War Claims Act, and the Civilian War Benefits Act, and to cases involving Civil Air Patrol and Reserve Officers Training Corps personnel, maritime war risks, and law-enforcement officers under P. L. 90-291.

insurance funds showed a small decline in the relationship of benefit payments to premiums written between 1973 and 1974—from 73.4 percent to 71.7 percent. The four largest State funds—California, New York, Ohio, and Washington—dominate this sector, and all but Washington evidenced faster growth in premiums than in benefits in 1974, but the reason for this pattern is not evident. The average loss ratio for State funds, with those three States excluded, rose by two percentage points, a rate similar to that in the private insurance sector.

The loss ratios for private carriers and, to some extent, those for State funds do not take into account the premium income that is returned to employers in the form of dividends. Data secured from State insurance commissions reveal that dividends under private work injury policies in the 1960's amounted to 4-6 percent of premiums in the jurisdictions reporting this information. If the loss ratios mentioned above were adjusted to allow for dividends, they would be increased by about three percentage points.

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## Social Security Abroad

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### Foreign Health Programs: Changes in Population Covered\*

An analysis of data available on national health programs throughout the world indicates that, in general, the percentage of population covered has increased significantly over the past 20 years. The developed countries, with few exceptions, already had national health programs of long standing at the beginning of this period, but in most cases large segments of the population were still excluded. In the intervening years, however, coverage has been extended to the point where the general pattern is now one of nearly universal coverage.

The term "national health program" here refers to a nationwide health care delivery system.

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with some degree of government participation, either in administration or financing. Basically, two types of programs can be distinguished: (a) national health insurance, where coverage is not necessarily universal and usually depends on payment of premiums and other preconditions for eligibility such as employment in certain work categories, and (b) national health service, under which comprehensive medical services, basically financed by general revenue, are made available usually to the whole population, some traces of an insurance approach may exist—the payment of a small premium, for example, but they are not central to the system. The term does not generally include public medical care programs that provide only limited services or reach only a portion of the total population in a given country.

Coverage in a large number of developing countries has also expanded considerably. Yet, since only a small portion of the population was generally covered initially, the number of people still excluded often remains large. In the developing countries that have become independent in the past 20 years coverage is especially low. In fact, very few have instituted national health programs although many provide limited care through public health facilities. In both the developing and the developed countries the agricultural worker has generally been among the last elements of the population to obtain coverage.

The accompanying table shows increases in coverage for a number of countries during the 15-year period from 1955 to 1970. The countries selected are representative of various geographical areas and different stages of economic development. For the sake of brevity, countries without any significant changes in coverage during this period have not been included. The table also excludes countries such as New Zealand, Sweden, the Soviet Union, and the United Kingdom where, during the entire period under review, virtually all of the population has been entitled to medical care and has usually been covered for such care under a national health service.

#### WESTERN EUROPE

Most European countries have evolved systems originally patterned after the pioneering national health insurance program established in Germany.