

Workers' Compensation Cost Data

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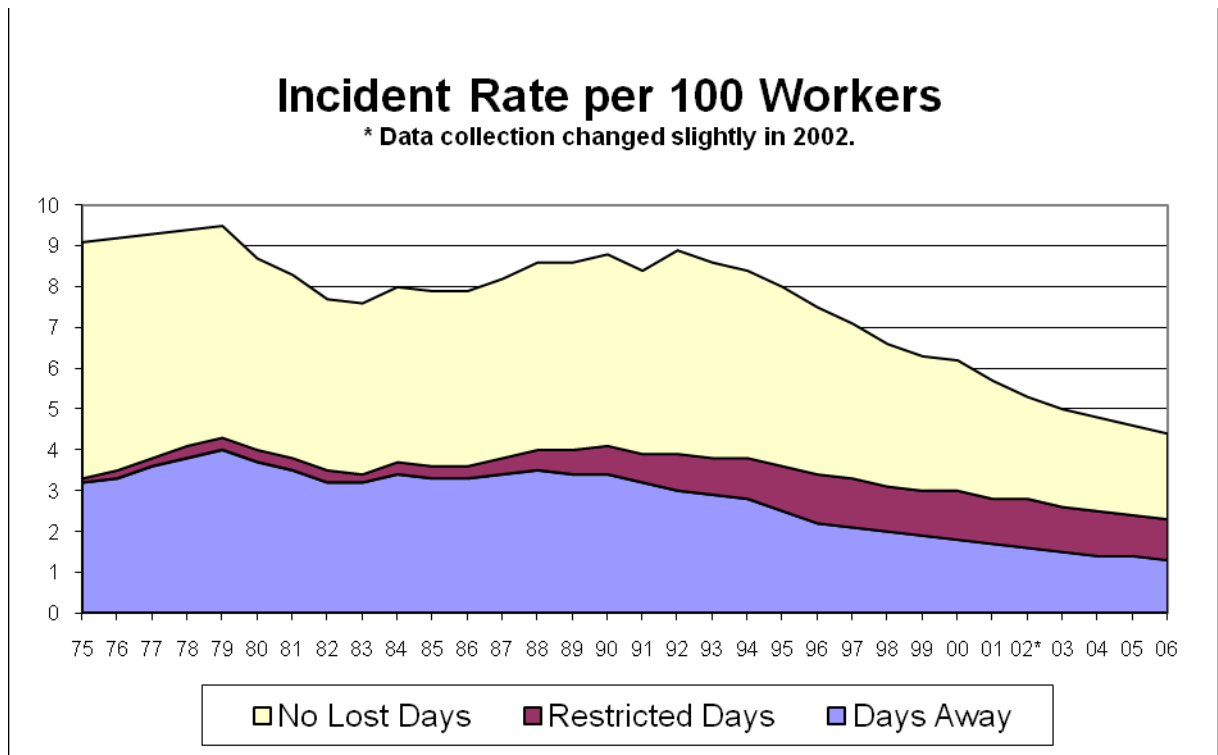
Data Requests

At the Workers' Compensation Center at Michigan State University we receive frequent requests for data about workers' compensation. In this paper we will attempt to provide a summary of some of the data that is most frequently requested. This will be followed by a brief analysis of some of the trends. Finally, we will explain why some data that is very often asked for is simply not available.

Trends and Interstate Comparisons

There are several well-recognized sources of data concerning trends and cost comparisons. In the sections below, we will summarize some of that data. The overall trends are quite clear. Workers' compensation costs increase from the 1970s through the early 1990s. They decrease from the early 1990s through about 2000. They increased slightly through about 2003 or 2004 and seem to be dropping again in the most recent years.

BLS Injury Survey



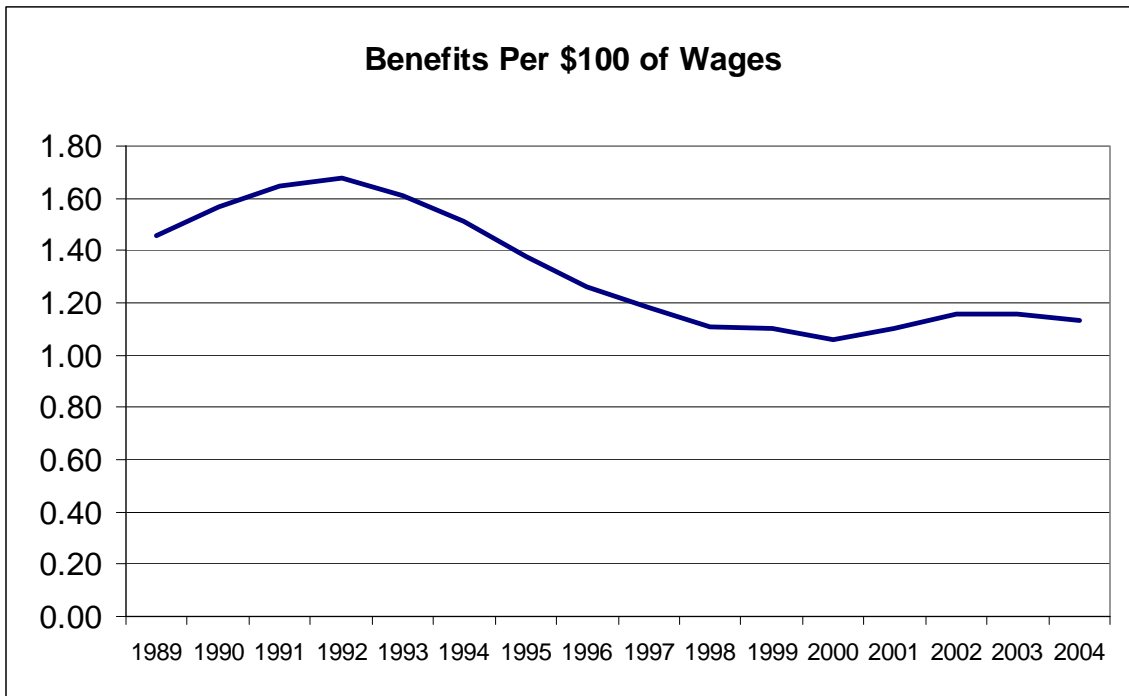
The figure above shows an estimate by the Bureau of Labor Statistics of the number of work-related injuries occurring in the United States. The bottom area includes injuries that involved at least one full day away from work. The middle area includes injuries with restricted days, but no full days away from work, and the top area represents medical-only injuries. This information comes from a survey of employers conducted by the Bureau of Labor Statistics. <http://www.bls.gov/iif/>

It should be noted that in 2002, BLS changed the way it collects the data. Accordingly, there is not perfect continuity in the trend displayed.

The BLS data contains many breakdowns of this area, including breakdown by body part, injury type, source of injury, and by industry. This data is available at the BLS website.

The total number of injuries, the number of injuries with no days away from work, and the number of injuries with full days away from work, have all decreased quite dramatically in the last 15 years. The one category that has increased is injuries with restricted days but no full days away from work. To some extent this represents efforts by employers to return injured individuals to work as soon as possible. A substantial portion of the decrease in injuries with full days away from work may be attributable to these return to work programs.

NASI Benefit Data



The figure above shows the cost per \$100 of payroll of workers' compensation benefits. This information is collected and published by the National Academy of Social Insurance. <http://www.nasi.org/> It is a continuation of the data series that was begun earlier by the Social Security Administration.

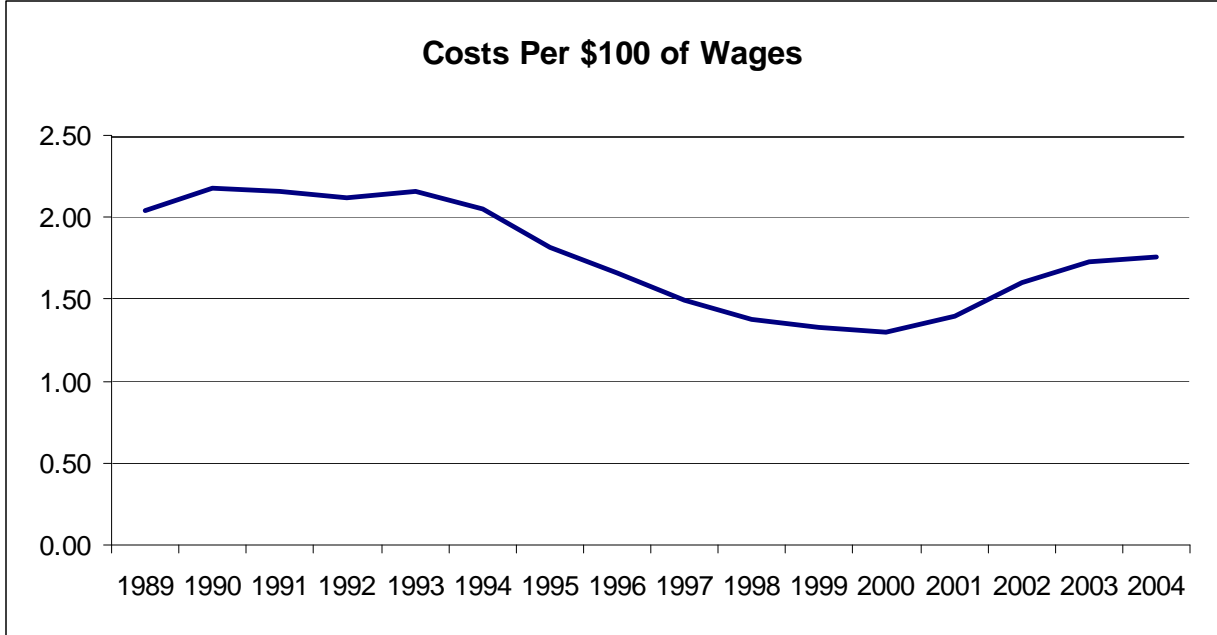
Benefits have dropped very slightly from 2003 to 2004. More significantly, benefits remain substantially below their highs. In 2004, benefits were about 1/3 lower than they were in 1992.

The table below shows this data by state for 2004.

Benefits per \$100 of Wages, 2004			
West Virginia	3.76	Illinois	0.94
Montana	2.00	North Dakota	0.94
California	1.91	Delaware	0.92
Alaska	1.84	New Mexico	0.92
Washington	1.80	North Carolina	0.92
Wyoming	1.63	Oregon	0.92
Maine	1.48	Michigan	0.91
Hawaii	1.44	New Hampshire	0.91
Kentucky	1.38	Minnesota	0.90
Oklahoma	1.38	Kansas	0.89
Vermont	1.33	Nevada	0.86
Missouri	1.32	Rhode Island	0.86
Ohio	1.30	Connecticut	0.83
South Carolina	1.29	Georgia	0.82
Pennsylvania	1.26	New York	0.82
Idaho	1.24	Maryland	0.80
Wisconsin	1.15	New Jersey	0.77
Florida	1.13	South Dakota	0.77
Total US	1.13	Arizona	0.70
Mississippi	1.06	Arkansas	0.70
Nebraska	1.05	Massachusetts	0.69
Tennessee	1.04	Utah	0.67
Alabama	1.02	Indiana	0.63
Louisiana	1.02	Texas	0.59
Colorado	1.01	Virginia	0.59
Iowa	1.00	District of Columbia	0.36

Note these figures represent benefits paid to workers, not the total cost to employers. The NASI publication includes an estimate of employer costs on a national basis which is discussed below, but does not break it down by state.

NASI Cost Data



The figure above is based on the same data series that is collected and published by the National Academy of Social Insurance and discussed above. This figure shows an estimate of employer cost (the previous figure showed benefits). Costs increased slightly from 2003 to 2004, but again remain substantially below their earlier highs. In 2004, costs were 19% below the high of 1990.

From 2000 to the most recent year, benefits have stayed about level while employer costs have increased. Various factors are responsible for this, including an increase in the profitability of the workers' compensation line of insurance. This is confirmed by data from the National Association of Insurance Commissioners, which is discussed under Insurance Results below.

NASI does not publish employer cost data on a state by state basis.

Oregon Insurance Estimates

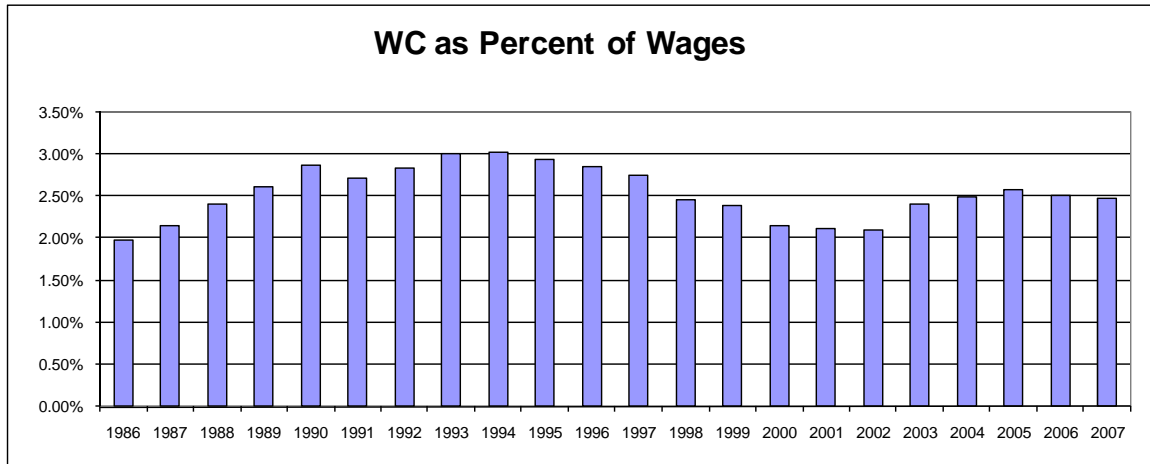
State Workers' Compensation Premium Ranking, 2006			
Alaska	5.00	National Median	2.48
California	4.13	New Mexico	2.41
Delaware	3.91	Wyoming	2.40
Kentucky	3.78	Colorado	2.40
Montana	3.69	Nevada	2.36
Florida	3.32	Idaho	2.29
Vermont	3.24	Mississippi	2.29
Maine	3.21	Nebraska	2.25
Alabama	3.17	West Virginia	2.20
New York	3.15	Wisconsin	2.18
Louisiana	3.10	North Carolina	2.17
Ohio	3.00	Washington	2.17
Oklahoma	2.96	Utah	2.06
Connecticut	2.90	Michigan	2.05
Hawaii	2.89	Maryland	2.03
District of Columbia	2.86	Georgia	2.02
Texas	2.84	Oregon	1.97
Pennsylvania	2.80	Kansas	1.84
New Hampshire	2.75	South Dakota	1.83
Minnesota	2.69	Iowa	1.75
Illinois	2.69	Arizona	1.73
Rhode Island	2.68	Massachusetts	1.70
New Jersey	2.52	Arkansas	1.59
Missouri	2.50	Virginia	1.52
South Carolina	2.50	Indiana	1.24
Tennessee	2.48	North Dakota	1.10

The table above represents an index published by the state of Oregon comparing workers' compensation insurance premiums. <http://www.cbs.state.or.us/imd/>

Many people ask about insurance premium comparisons. While it has some drawbacks, this bi-annual analysis is the most widely accepted measure of such comparisons. It is adjusted for industry mix so that the comparisons between states are made as if all states had the same distribution of wages among industries.

The study has a number of limitations. It includes only insured, not self-insured employers. In adjusting for industry mix, it adjusts all states as if their industry mix were the same as Oregon's. Undoubtedly, a shift to a national industry mix would move some states up and down in their ranking, but it is likely that the changes would only result in shifts of a few positions.

BLS Cost Survey



The figure above shows the cost per \$100 of wages that employers report for workers' compensation.

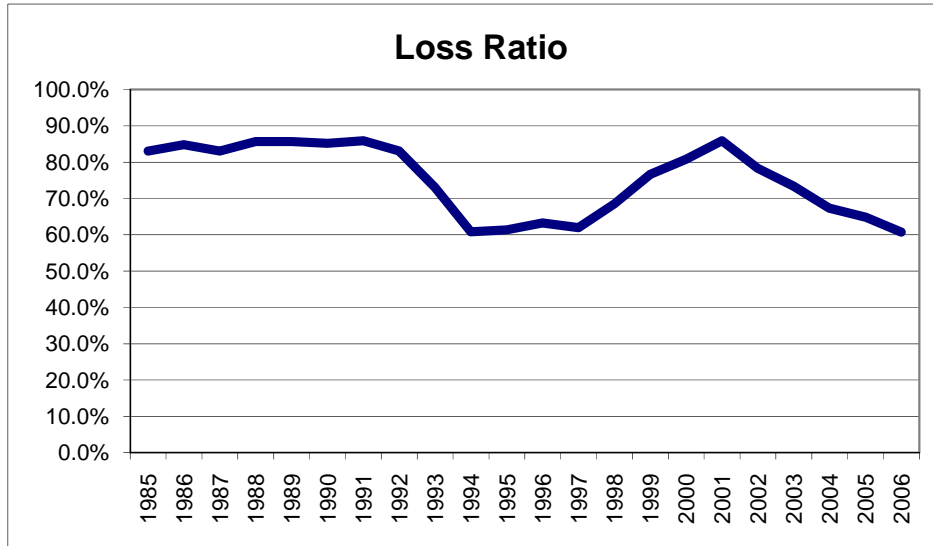
This is the result of another survey conducted by the Bureau of Labor Statistics <http://www.bls.gov/news.release/ecec.nr0.htm>. This data source has some advantages. It includes all employers, both insured and uninsured, and it attempts to include costs to employers (not simply benefits paid to workers). This data series is also more timely than any of the others. The results are published very shortly after the surveys are conducted. The data has been collected on a yearly basis since 1989, and is available on a quarterly basis since 2002.

A drawback of the survey is that the data sample is not large enough to publish state-by-state results.

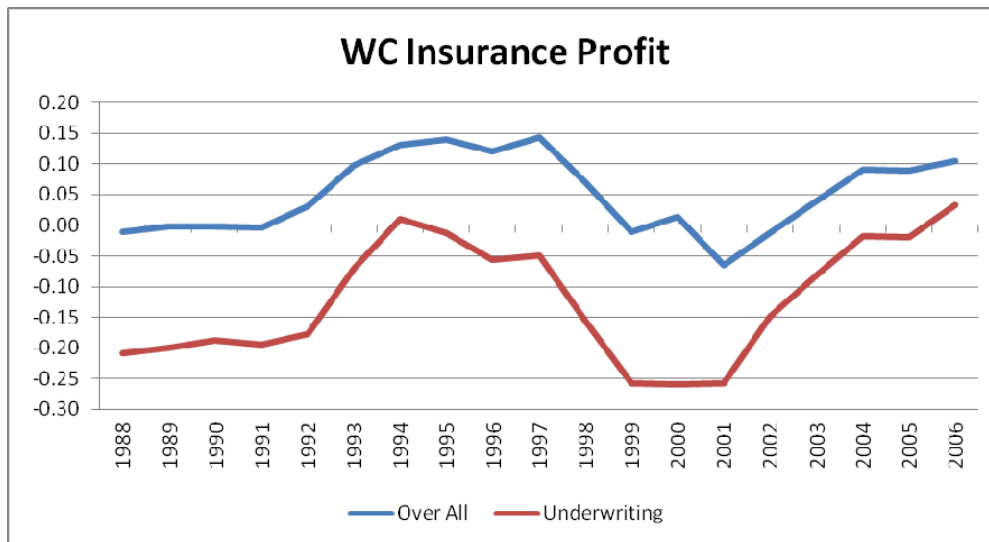
As with other measures this data series shows that costs today are substantially lower than their highs in the early 1990s and appeared to be decreasing further in the most recent years.

Insurance Results

The National Association of Insurance Commissioners, <http://www.naic.org/>, compiles data about various lines of insurance. Their publication *Profit by Line by State* contains a great deal of information about workers' compensation and other lines of insurance. It is available for sale from NAIC.



The chart above shows the loss ratio for the workers' compensation line of insurance. "Losses" are the benefits paid to workers and health care providers. Like most measures of insurance they are expressed as a percentage of premiums. Thus in 2006 the benefits paid out were equal to about 60 percent of the dollars taken in as premium.



This chart shows the profits from the workers' compensation line of insurance measured in a couple of different ways. The lower line shows what is sometimes called "underwriting profit." It compares all of the expenses (losses, marketing costs, administrative costs, fees, and taxes) of running an insurance company to the amount of

premium taken in. It is unusual for this amount to be positive. Ordinarily there is an underwriting loss. The results for 2006 were at an historically high level.

Underwriting profit does not consider investment income. Insurance companies receive premium for a year to cover injuries that occur during that year but the benefits related to those injuries are paid out over many years in the future. This is particularly true of workers' compensation which is a line of insurance that has a "long tail." Insurance companies take this into account when calculating the premium they should charge. The top line in the chart above shows overall profits. This includes investment income.

The swings in the profitability are typical of what is called the "underwriting cycle."

The table below shows profitability by state.

WC Insurance Profit 2006			
Alaska	28.8%	Maine	5.4%
Nevada	27.5%	Indiana	5.2%
Hawaii	24.5%	Utah	5.2%
California	22.7%	New York	5.1%
Florida	17.0%	Pennsylvania	4.9%
Louisiana	15.5%	Oregon	4.6%
Texas	15.4%	Connecticut	4.2%
Missouri	14.5%	Vermont	3.5%
Delaware	13.8%	Maryland	2.4%
Arkansas	13.7%	Wisconsin	1.8%
Kentucky	13.5%	Montana	1.7%
Alabama	13.3%	Georgia	1.3%
New Mexico	13.1%	New Jersey	1.1%
Michigan	11.5%	North Carolina	1.0%
Minnesota	10.5%	Dist. Col.	0.9%
Countrywide	10.4%	South Dakota	0.7%
New Hampshire	9.5%	Idaho	0.5%
Massachusetts	8.7%	Iowa	0.0%
Tennessee	8.7%	Rhode Island	-0.4%
Virginia	7.7%	Arizona	-1.6%
Mississippi	7.3%	Oklahoma	-3.1%
Nebraska	6.5%	Illinois	-3.5%
Colorado	6.3%	South Carolina	-5.0%
Kansas	5.8%		

Note: This does not include the exclusive state fund states of Ohio, North Dakota, Washington, West Virginia, and Wyoming.

The Meaning of the Trends

Virtually all of the figures presented here show a substantial decline in injury rates and employer costs over the last 10 years. A few comments are in order.

Safety

It seems very likely that part, though certainly not all, of the decrease in reported injuries is the result of an actual decrease in real injuries attributable to improved safety efforts by employers.

Return-to-Work

Some of the decrease in the number of injuries with days away from work and the cost of workers' compensation is very likely attributable to return-to-work efforts by employers. Twenty years ago, most employers felt that an injured worker should not return to work until he or she was fully recovered. Today, the most aggressive employers rarely leave workers at home for any period of time. As soon as the worker is able to do anything at all, they find them jobs that are within their restrictions. In the BLS data shown above, the contrast between the decrease in injuries with full days away from work and the increase in the injuries with only restricted days is graphic evidence of this trend.

Reduced Reporting

Studies have shown that not all work-related injuries are reported as workers' compensation claims. There are a variety of potential reasons for this, some of which are discussed below.

Some Injuries Defined Out of the System

In the 1980's and 1990's, many states "reformed" their workers' compensation system. Often these reforms included tightening the definition of which incidents were covered by workers' compensation. Employers argued that these cases never should have been in the system in the first place. Workers and their advocates argued that this was an unfair restricting of compensability. Regardless of the point of view, these changes in the definition of what is covered under workers' compensation probably contributed to the drop in the number of injuries reported and the drop in employer cost.

Some People are Scared Out of the System

During the 1990's, many states conducted aggressive publicity campaigns against workers' compensation fraud. In some cities, there were many billboards with a picture of a workers' compensation claimant behind bars. These campaigns were designed to discourage individuals who were considering filing a fraudulent workers' compensation claim. There are many injuries that result in questionable claims – situations in which the disability may or may not be work-related. It is very likely that the anti-fraud campaigns discouraged some of those workers for filing for compensation.

Insurance Pricing

Beginning in the early 1980's, many states began to allow competitive pricing of worker's compensation insurance. This has resulted in increased fluctuations in the insurance market. Some of these can be seen in the profitability figure above. These fluctuations affect the profitability of insurance companies and the prices they charge to employers.

Limited Availability of More Specific Data

One of the most frequent requests we receive at the Workers' Compensation Center at Michigan State University is for specific data about workers' compensation costs. What is the average cost for a back injury? What is the average cost for a back injury in Texas? What is the average cost for a back injury in Texas among ironworkers? For most cases, the answer is very simple – this data is not available. There is simply no one who collects and analyzes this type of data about workers' compensation. There are several reasons for this. One is the difference among workers' compensation systems in the 50 states. These differences make it difficult to collect and compare data across jurisdictions. Another is that there is no source of funding for such data collection and analysis (If someone would like to give us a nice grant, we would be happy to look into this.)

The closest thing to this information is data on frequency, and to some extent duration, that is collected in the BLS injury survey described above. If information about how often injuries occur and how long they last would be helpful to you, you may wish to look at their website. <http://www.bls.gov/iif/> It does not, however, contain specific information about cost.

The National Council on Compensation Insurance (www.ncci.com) is an insurance industry organization that collects a huge amount of information for the purpose of setting insurance premium rates. It collects information in 30-some states, and similar data collection organizations collect the same data in other states. Ordinarily, however, this information is not easily transferable into answers for questions raised by individual employers and policymakers. In addition, NCCI charges substantial fees for its data.