



Workers' Compensation: Coverage, Benefits, and Costs, 1983

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Workers' compensation is one of the few State-administered income maintenance programs operating throughout the United States. The national workers' compensation system to provide benefits for work-caused disability and death actually consists of 50 independent State operations and several special Federal programs. The Social Security Administration (SSA) developed and continues to improve basic statistics to measure trends

and progress in workers' compensation and to evaluate the system, especially in relation to income maintenance programs under the Social Security Act. A standardized set of State and national estimates of amounts expended for workers' compensation benefits—as well as national estimates on coverage, payroll, and costs to employers—are compiled and analyzed each year. In 1983, benefits under workers' compensation totaled \$17.5 billion, somewhat less than the \$24.2 billion combined amount received by disabled workers under SSA's disability insurance program and Medicare.

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The year 1986 marks the 75th anniversary of the beginning of State workers' compensation programs. The first laws were enacted in 1911, thus initiating a system of social insurance at the State level in this country.¹ Workers' compensation provides medical care and income-maintenance protection to workers disabled from work-related injury or illness. Unlike the other major social insurance programs in the United States, it is almost entirely funded by employers.

Workers' compensation is relevant to the social security program in a number of ways. Information about disability and survivor benefits under workers' compensation is needed by the Social Security Administration (SSA) for effective coordination of the two programs. For example, SSA administers a benefit offset provision applicable to social security disability insurance beneficiaries who also receive a workers' compensation benefit. In addition, SSA administers a major part of the Federal black lung benefits program—a program that pays benefits to workers disabled by pneumoconiosis, a work-related disease suffered by coal miners. Thus, trends under the workers' compensation program are useful for legislative planning and policy development of the social security program.

Each year SSA provides estimates on current levels of protection under workers' compensation and the premium costs of operating the system. This article reports on the 1983 experience, and compares it with data for 1982 and earlier periods. In 1983, the major measures of workers' compensation activity compiled here reflected the recovery of the economy during the year and the declining rate of inflation. That is, the number of covered workers rose, in contrast to the previous year's decline; the total amount of benefits paid increased, but at a slightly lower rate than in 1982; and premium costs went up slightly from a year earlier, after having actually declined in 1982. The following tabulation provides figures for the 2 years, in millions:

Item	1982	1983
Number of covered workers	77.8	78.5
Benefits paid	\$16,263	\$17,533
Premium costs	22,630	22,946

Among the effects of economic forces on workers' compensation were the increases recorded in the statutory weekly benefit maximums of 45 States during 1983. A notable legislative change in 1983 was the establishment of a "competitive" State fund in Minnesota, the first such new public fund in more than 50 years. There are now 13 competitive State funds² in addition to six

¹ Ten States passed laws in 1911. Note that a similar Federal program had begun 3 years earlier for certain groups of civil service employees. The last State workers' compensation legislation was passed in Mississippi in 1948.

² Puerto Rico also has a competitive public fund. This jurisdiction, however, is not included in the series reported here.

"exclusive" State funds (competitive funds compete with private insurance companies for workers' compensation business; exclusive funds are the only insurers permitted in their State).

Coverage

The number of workers covered under workers' compensation in an average month during 1983 was 78.5 million, a rise of about 700,000 over the preceding year. This increase was almost 1 percent over the 1982 level, whereas the number covered had declined by about 2 percent from 1981 to 1982. Trends during the 1980's in the number of workers protected by workers' compensation have followed changes in the total number of American workers during the period. Consequently, the 86-percent ratio of covered workers to all wage-and-salary workers in 1983 was within one percentage point of that for the previous 2 years.

Changes in coverage arising from statutory amendments to State laws have been modest in recent years. In 1982, for example, volunteer fire and rescue personnel, library employees in counties of a certain size, and other special small groups of workers were added to coverage in some areas. On the other hand, laws were changed in some States to exclude lessees of motor vehicles, corporate officers, and other types of workers. In 1983, similarly minor statutory changes were made in coverage provisions.

Wages and salaries of workers covered by workers' compensation (total covered payroll) came to \$1,377 billion in 1983. This figure accounted for 85 percent of all wage-and-salary disbursements in that year. The fact that covered payroll in 1983 was 5 percent higher than in the previous year largely results from a similar increase in average weekly wages over the 12-month period. Therefore, the ratio of covered to total payroll was not much different from that for 1982. The covered payroll ratio has been stable, not varying by more than one percentage point, for the past 7 years.

Benefits

Workers' compensation benefits totaled \$17,533 million in 1983, an increase of \$1.3 billion, or 7.8 percent, over the corresponding 1982 level (table 1).

Increases in benefit payments can result from a variety of causes. One of the most important factors in recent years has been the interaction of rising wage levels and increasing statutory benefit amounts. The average annual worker's wage rose in 1983 by 4.9 percent to \$17,547.³ Higher wages produce higher benefits because benefit amounts are usually formulated as a proportion

³ The wage used here is that for employees covered by unemployment insurance, the closest available measure to wages covered by workers' compensation.

Table 1.—Estimates of workers' compensation payments, by type of benefit, 1982 and 1983

Type of benefit	Amount of payment (in millions)		Percentage change
	1982	1983	
Total	\$16,263	\$17,533	7.8
Regular	14,596	15,842	8.5
Black lung	1,667	1,691	1.4
Medical and hospitalization	4,860	5,350	10.1
Regular	4,814	5,229	8.6
Black lung	46	121	163.0
Compensation	11,403	12,183	6.8
Regular	9,782	10,613	8.5
Black lung	1,621	1,570	-3.1
Disability	9,893	10,613	7.3
Regular	8,977	9,743	8.5
Black lung	916	870	-5.0
Survivor	1,510	1,570	4.0
Regular	805	870	8.1
Black lung	705	700	-7

of the worker's wage. In most States, statutory provisions automatically raise the maximum weekly amount payable so that higher benefits are paid as wages rise. In 1983, the average statutory maximum weekly benefit amount for temporary total disability was \$280.67, or 5.7 percent above the average statutory maximum in 1982. Increases were effective in all but six States in 1983.

A substantial portion of workers' compensation benefits is for medical care. The annual growth of this segment in recent years can in large part be attributed to the growth in medical care costs. The Bureau of Labor Statistics reports that the medical care component of its Consumer Price Index for all urban consumers rose during 1983 by 8.7 percent and, except for 1978, by more than that proportion during each of the preceding 8 years.

Another significant factor affecting the amount of benefit payments is the rate of industrial accidents and illnesses. Since the early 1970's, survey data reported by the Bureau of Labor Statistics⁴ have shown a decline in the incidence of on-the-job injuries and illnesses. During 1983, 7.6 out of every 100 full-time equivalent workers were injured or became ill on the job. This incidence was almost the same as the 7.7 rate for 1982. The same survey reveals that, although the severity rate of work-related injuries and illnesses has not shown a consistent trend during the 1970's and 1980's, it has edged up in the past few years. The average number of workdays lost per lost workday case went from 16.3 in 1981 to 16.9 in 1982 and to 17.0 in 1983.

⁴ See News Release 84-472, "Occupational Injuries and Illnesses in 1983," Department of Labor, November 14, 1984, and earlier releases.

The annual increase in benefits among State programs has been slowing down for a number of years. This trend can best be seen by excluding Federal black lung benefits from those payable under the regular State programs.⁵ Under this measure, benefits accelerated yearly in the early 1970's, peaking at an annual increase of 18.8 percent in 1974. Benefit growth remained quite high throughout the late 1970's as inflationary pressures pushed up wages, and then benefits. Since 1979, however, the pace has slackened each year.

The history of benefits under the Federal black lung program has been quite different from that under the regular State programs. Large annual increases in black lung benefits were paid from 1970, when the program began, until 1973, when most backlog claims were processed. From 1974 through 1978, benefit totals remained at about \$1 billion each year. Because of a major statutory extension of eligibility in early 1978, the annual total rose in 1979 to \$1.7 billion. Since then, total black lung benefits have remained at about the same level each year. A downward long-term trend is to be expected, as older beneficiaries die and a smaller number of new claimants comes on the rolls.

The relationship of benefits paid to covered payroll can be viewed as an overall measure of the role of benefits as a cost of production and as an income source for the worker. Benefits paid per \$100 of payroll stood at \$1.18 in 1983, 3 cents above the 1982 level. It is of interest to note the history of this statistic. The benefit-payroll rate was 51 cents per \$100 in 1948, and increased slowly and irregularly over the next 25 years to 70 cents in 1973. As a result of major statutory improvements in benefits, greater public awareness of benefit availability, wage inflation, and perhaps other factors, benefits per \$100 of payroll rose rapidly during the rest of the 1970's—by as much as 8 cents in 1975—to \$1.06 in 1980.

The benefit-payroll rate has continued upward in this decade, in contrast to most of the other measures reported in this series, which have tended to return to earlier "normal" levels. A few factors help to explain the continued growth in the benefit-payroll rate during 1981-83. Benefits have continued to rise as flexible maximums have been automatically adjusted upward. Payrolls have gone up at a modest pace, reflecting the slowdown in employment levels. And a growing part of Federal black lung benefit expenditures has been financed by employer contributions (rather than by general revenues) and so has been added to the benefits included in this rate. For example, it is estimated that, in 1982, about 2 cents out of the 7-cent rise in the benefit-payroll rate during that year was attributable to

⁵ References 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 program, unless specifically noted otherwise.

the inclusion of Federal black lung benefits financed by employers.

Types of Benefits and Insurers

In 1983, about \$12.2 billion, or 69.5 percent of workers' compensation payments, was in the form of cash compensation. The other \$5.4 billion in benefits, or 30.5 percent, was for medical care services, including hospital care provided to disabled workers. As table 1 shows, \$10.6 billion in cash compensation was paid to workers while they were disabled, and \$1.6 billion was received by the survivors of workers who died from work-related causes.

Regular State programs and the Federal black lung program have very different characteristics. For instance, medical payments under the black lung program amounted to only about 7 percent of total black lung benefit payments in 1983, while about one-third of regular program benefits were for medical care, a share that has remained stable for a number of years. Although relatively small, the amount of black lung medical benefits has increased significantly since 1978 and almost threefold from 1982 to 1983. This trend is largely due to the increased number of persons made eligible under the 1978 legislation and to a growing awareness of the availability of these medical benefits among those who are eligible to receive them.

Similarly, the distribution of cash benefits differs significantly between the black lung and State workers' compensation programs. Only 5.5 percent of all State program benefits were made to survivors in 1983, but 41.4 percent of black lung benefits went to survivors. The following tabulation shows the distribution in 1983 of each major category of benefits for the regular State programs and the black lung program:

Program	Total	Medical and hospitalization	Cash benefits		
			Total	Disability	Survivor
All programs	100.0	30.5	69.5	60.5	9.0
Regular	100.0	33.0	67.0	61.5	5.5
Black lung	100.0	7.2	92.8	51.4	41.4

Another important way of describing the workers' compensation system is by the insurance mechanisms through which the program operates. As indicated in table 2, \$9.3 billion of all workers' compensation benefits in 1983 was paid through private insurance, representing 52.8 percent of the total in that year. Smaller shares of the benefit total were paid through public funds (State and Federal) and through self-insurance. When the Federal black lung program is excluded, the distribution of benefits by type of insurer in

1983 was: Private carriers, 58.5 percent; State and Federal funds, 21.1 percent; and self-insurance, 20.4 percent. These proportions were about the same as in 1982 and, except for the effect of an increase of several percentage points in the self-insurance sector since the mid-1970's, the distribution has continued its long-term stability.

Variation in State Benefits Under Regular Programs

Each year, there is wide variation in the amount of benefits paid in each State as well as in the amount of benefits by type of insurance. Size of the workforce, type of industry, statutory coverage, benefit and administrative provisions, and wage levels in each State are among the factors influencing the level of benefits paid. Beginning in 1975, benefit payments have been highest in the same eight States: California, Florida, Illinois, Michigan, New York, Ohio, Pennsylvania, and Texas. In 1983, these jurisdictions paid \$7.9 billion in benefits, or 53.0 percent of the national total, excluding Federal programs. Except for Florida, all of these States ranked among the eight highest-paying jurisdictions in 1948. By contrast, benefits paid in 1983 in the eight States with the smallest aggregate payments totaled \$284 million, or 1.9 percent of the national total, excluding Federal programs.⁶

The largest increase in benefits in 1983 was the 24.3-percent rise recorded in Arizona. Aggregate benefit payments declined in seven jurisdictions. In the District of Columbia, benefits decreased by 3.6 percent. In 1983, the average increase nationally (excluding black lung benefits) was 8.5 percent. This average increase was 1.4 percentage points lower than in 1982.

The number of jurisdictions and the percentage distribution of covered workers by the percentage change in aggregate benefits paid from 1981 to 1982 and from 1982 to 1983 is shown in table 3. The continuing moderation in benefit growth is evident in terms of the changes in benefits paid by the States. Three more States recorded declines in benefits from 1982 to 1983 than from 1981 to 1982; two fewer States had increases of 20 percent or more. A similar tendency can be seen in terms of the percentage distribution of workers. The middle values of each distribution do not evidence any clearcut pattern.

Geographically, benefit growth has shown some consistent trends in the 1980's. For example, States in the Mountain Division⁷ as a group have reported faster growing benefit totals than have other areas. In 1983, benefits paid in these States were 13.0 percent above the 1982 level, compared with the national average of 8.5 percent (excluding the black lung program). The rate of growth for the Mountain States was higher in 1983 than in each of the other eight

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

⁷ Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming.

Table 2.—Estimates of workers' compensation payments, by State and type of insurance, 1982-83¹

Jurisdiction	1982				1983				Percentage change in total payments from 1982 to 1983
	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	
Total.....	\$16,263,318	\$8,646,734	\$4,737,906	\$2,878,678	\$17,533,341	\$9,263,797	\$5,037,750	\$3,231,794	7.8
Alabama.....	132,422	94,422	...	38,000	146,626	104,726	...	41,900	10.7
Alaska.....	63,876	51,576	...	12,300	76,774	63,174	...	13,600	20.2
Arizona.....	137,513	74,310	49,858	13,345	170,936	79,295	76,284	15,357	24.3
Arkansas.....	103,163	72,163	...	31,000	118,199	78,799	...	39,400	14.6
California.....	2,032,558	1,192,510	259,317	580,731	2,240,567	1,290,575	273,063	676,929	10.2
Colorado.....	180,498	65,210	90,888	24,400	209,655	80,842	103,413	25,400	16.2
Connecticut.....	209,165	166,121	...	43,044	230,097	180,597	...	49,500	10.0
Delaware.....	27,066	20,916	...	6,150	30,276	23,326	...	6,950	11.9
District of Columbia.....	80,468	65,738	...	14,730	77,551	63,551	...	14,000	-3.6
Florida.....	519,747	360,947	...	158,800	645,119	424,419	...	220,700	24.1
Georgia.....	235,355	202,855	...	32,500	255,903	220,603	...	35,300	8.7
Hawaii.....	95,628	66,578	...	29,050	105,136	75,436	...	29,700	9.9
Idaho.....	44,280	30,389	8,191	5,700	46,061	32,561	8,100	5,400	4.0
Illinois.....	673,032	565,032	...	108,000	655,705	551,705	...	104,000	-2.6
Indiana.....	118,163	100,163	...	18,000	128,764	103,564	...	25,200	9.0
Iowa.....	106,468	93,568	...	12,900	109,600	97,600	...	12,000	2.9
Kansas.....	105,148	88,348	...	16,800	114,597	96,297	...	18,300	9.0
Kentucky.....	167,752	125,752	...	42,000	168,062	125,962	...	42,100	.2
Louisiana.....	384,419	320,319	...	64,100	408,642	340,542	...	68,100	6.3
Maine.....	123,724	90,824	...	32,900	145,317	109,517	...	35,800	17.5
Maryland.....	241,767	159,805	29,062	52,900	254,782	167,269	31,813	55,700	5.4
Massachusetts.....	368,982	338,565	...	30,417	407,554	373,954	...	33,600	10.5
Michigan.....	672,881	372,319	31,562	269,000	665,397	368,197	31,200	266,000	-1.1
Minnesota.....	335,750	282,150	...	53,600	377,735	292,835	...	84,900	12.5
Mississippi.....	70,671	63,471	...	7,200	74,485	66,485	...	8,000	5.4
Missouri.....	151,640	125,240	...	26,400	172,352	139,452	...	32,900	13.7
Montana.....	55,880	20,957	5 28,189	6,734	65,667	24,878	5 32,857	7,932	17.5
Nebraska.....	52,648	46,548	...	6,100	56,482	49,382	...	7,100	7.3
Nevada.....	91,755	724	83,638	7,393	95,704	1,824	84,000	9,880	4.3
New Hampshire.....	60,129	53,679	...	6,450	63,482	56,682	...	6,800	5.6
New Jersey.....	350,042	311,492	...	38,550	394,527	333,677	...	60,850	12.7
New Mexico.....	80,794	76,194	...	4,600	92,296	87,096	...	5,200	14.2
New York.....	760,225	412,008	214,217	134,000	758,142	413,172	211,470	133,500	-3
North Carolina.....	159,873	126,473	...	33,400	172,472	130,472	...	42,000	7.9
North Dakota.....	22,128	86	22,042	...	23,091	30	23,061	...	4.4
Ohio.....	924,263	2,887	600,376	321,000	1,079,842	3,634	715,708	360,500	16.8
Oklahoma.....	210,981	150,267	27,814	32,900	227,881	160,351	31,930	35,600	8.0
Oregon.....	306,455	92,114	150,141	64,200	311,807	97,709	154,498	59,600	1.7
Pennsylvania.....	722,948	496,198	5 62,250	164,500	780,738	540,149	5 62,689	177,900	8.0
Rhode Island.....	70,565	63,565	...	7,000	81,283	73,183	...	8,100	15.2

See footnotes at end of table.

geographical divisions, and it was the first or second highest in each of the previous 3 years. New England⁸ also has experienced faster benefit growth during this period. In 1983, benefits rose by 11.7 percent.

Beginning with 1980, the East South Central States⁹ and the Middle Atlantic States¹⁰ have fairly consistently shown slower rates of growth than the other seven divisions. In

⁸ Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

⁹ Alabama, Kentucky, Mississippi, and Tennessee.

¹⁰ New Jersey, New York, and Pennsylvania.

1983, these two areas had the lowest aggregate benefit increases nationally over the 1982 levels—3.4 percent (East South Central) and 5.5 percent (Middle Atlantic). Diverse factors may help account for these geographical patterns, including, for example, accelerating economic growth (as in much of New England) or relatively stagnant employment levels (as in the Middle Atlantic States). It is also interesting to note that these trends are not necessarily consistent over extended periods. New England was among the slowest growing areas in benefit payments during several years in the mid-1970's.

Table 2.—Estimates of workers' compensation payments, by State and type of insurance, 1982-83¹—Continued

Jurisdiction	1982				1983				Percentage change in total payments from 1982 to 1983
	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	
South Carolina	98,902	82,618	...	16,284	106,960	89,295	...	17,665	8.1
South Dakota	16,706	14,506	...	2,200	17,706	15,406	...	2,300	6.0
Tennessee	149,098	133,098	...	16,000	148,660	135,160	...	13,500	.3
Texas.....	981,735	981,735	1,083,994	1,083,994	10.4
Utah	51,377	16,905	26,472	8,000	50,814	20,137	22,777	7,900	-1.1
Vermont	19,297	17,747	...	1,550	23,598	21,698	...	1,900	22.3
Virginia	249,362	171,962	...	77,400	264,859	182,659	...	82,200	6.2
Washington.....	419,178	15,578	310,000	93,600	510,529	16,529	380,000	114,000	21.8
West Virginia	211,655	725	134,880	76,050	222,246	1,159	142,356	78,731	5.0
Wisconsin	205,811	169,011	...	36,800	211,797	173,897	...	37,900	2.9
Wyoming	37,234	366	36,868	...	36,653	341	36,312	...	-1.6
Federal:									
Civilian employee program ⁶	899,080	...	899,080	...	918,925	...	918,925	...	2.2
Black lung benefits program ⁷	1,666,908	...	1,666,908	...	1,691,049	...	1,691,049	...	1.4
Other ⁸	6,153	...	6,153	...	6,245	...	6,245	...	1.5

¹ Data for 1983 preliminary; data for 1982 represent revised figures. 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 1982 and 1983. Includes benefit payments under the Longshoremen's and Harbor Workers' Compensation Act and extensions 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 \$590,871,000 in 1982 and \$628,349,000 in 1983 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 P.L. 90-921.

Cost Relationships

The direct cost to employers of providing workers' compensation is the insurance premium they pay. Premiums consist of amounts for current benefits, sales and operating costs, claims administration, rehabilitation costs, profits, taxes, and reserves for future benefits. In 1983, premiums totaled \$22.9 billion, representing an increase of only \$300 million above the total for the previous year. After almost a decade of annual increases of 10 percent or more in the 1970's (with the largest increase in 1977—27.0 percent), the workers' compensation system clearly entered a period of much smaller annual changes in the 1980's: a 3.1-percent increase in 1981, a 1.9-percent decline in 1982, and a 1.4-percent rise in 1983.

Components of the premium total paid in 1983 were:

- (1) \$15.4 billion in premiums paid to private carriers;
- (2) \$4.1 billion in premiums paid to State funds and for Federal programs (the Federal employee program and the part of the Federal black lung program financed by employers); and
- (3) \$3.5 billion in the cost of self-insurance—benefits paid by self-insurers plus 5-10 percent allocated for administrative expenses.

Costs may be related to payroll covered under workers' compensation. This measure provides a perspective to workers' compensation as a component of labor costs. In 1983, the premium cost per \$100 of covered payroll was \$1.67, a decline from the \$1.73 level of 1982. The decline in this ratio since 1980 has been in

Table 3.—Number of jurisdiction¹ and percentage distribution of covered workers, by percentage change in workers' compensation benefits, 1981-82 and 1982-83.

Percentage change in benefits	Number of jurisdictions		Percentage distribution of covered workers	
	1981-82	1982-83	1981-82	1982-83
Total.....	52	52	100.0	100.0
Decrease	4	7	8.0	19.5
Increase:				
0.0-4.9	9	8	17.7	10.8
5.0-9.9	14	16	19.3	23.7
10.0-14.9	15	11	40.7	31.6
15.0-19.9	3	5	2.3	7.5
20.0 or more.....	7	5	12.0	6.9

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

sharp contrast to its rapid rise from 1973 through 1979, when it climbed from \$1.17 to \$1.95. The 1970's were marked by the effects of greatly increased statutory coverage and benefits. By contrast, the 1980's so far have been characterized by close review and adjustment of insurance costs and administrative reforms to make workers' compensation programs operate more efficiently. Based on the most recent trends, the cost-payroll ratio appears to be stabilizing.

A measure of the effectiveness of the workers' compensation system in the delivery of cash and medical care benefits for work-related disability is the ratio of benefits to premiums (loss ratio). When benefits financed through general revenues are excluded, the loss ratio for all types of insurance combined is 70.6 percent, as high as this ratio has been in this series. The ratio declined to 50.9 percent in 1978 and has risen in each year since then.

From 1950 through the mid-1970's, the loss ratio moved narrowly around the 60 percent level. The recent wide swings reflect considerable benefit growth due to major statutory benefit and coverage changes in the early 1970's. Benefit growth was accompanied by accelerated increases in premiums. Then loss ratios further declined because insurers made premium adjustments based on inflationary expectations as wage increases drove benefits up. And, most recently, loss ratios have reversed direction and have gone up substantially as State legislatures have attempted to restore balance in the system by reversing premium growth, establishing more rate competition, and tightening claims administration. The slower rise of the loss ratios from 1982 to 1983 (four percentage points) compared with those from 1981 to 1982 (eight percentage points) may be expected to continue to slacken in 1984 and beyond as the adjustment process moderates.

Additional insight can be obtained from examining the loss ratios of two component sectors of the overall ratio: loss ratios of the private insurers and of State funds. Private insurance data for 1983 are available on losses paid (benefits) and premiums written (amounts

received in a given period).¹¹ The loss ratio for this sector was 60.2 percent, an increase from 56.2 percent in 1982. The changes in loss ratios for private insurers from 1980 to 1983 closely paralleled the experience of all types of insurance combined—that is, the ratios have grown each year, but at a declining rate from 1982 to 1983.

The loss ratio for private insurance, based on losses incurred and premiums earned, also rose in 1983, to 69.8 percent. This ratio, which includes amounts set aside to cover liabilities from future claims, is always well above that based on losses actually paid and premiums written. The loss ratio based on incurred losses is a significant measure because it is commonly used by insurance organizations in evaluating and revising their premium rates.

The loss ratio for State funds, available here only on a benefits-paid basis, was 92.6 percent in 1983, a large rise from 82.2 percent in 1982. This unusually high ratio, well above any previously recorded in this series, continues the pattern of wide fluctuations that began in the 1970's. In the 1950-76 period, the State fund loss ratio had always been within the 64-78 percent range, but the range from 1977 to 1983 was 49.5-92.6 percent. The recent wide swings have resulted primarily from substantial movements in premium totals, which, for example, have registered declines in 1981, 1982, and 1983, while benefits have continued to rise.

Comparisons between the loss ratios of private carriers and those of State funds should take into account the premium income returned to employers as dividends but not provided for in the reported data, particularly with respect to private carriers. Available data indicate that dividends, when related to total premium payments for both dividend and non-dividend-paying companies, averaged 11.3 percent in 1983. Investment income, which also should be considered, averaged 18.5 percent of premiums for all companies in 1983.

¹¹ National Council on Compensation Insurance, "Insurance Expense Exhibit (Country Wide), for the Year Ending December 31, 1983," unpublished paper, 1984.