
Workers' Compensation: Coverage, Benefits, and Costs, 1985

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The 84.3 million workers protected by workers' compensation laws in 1985 represented 87 percent of all wage and salary workers in that year. Both the amount of benefits paid to workers and the cost of the program to employers rose substantially from 1984 to 1985. Benefit payments totaled \$22.5 billion—14.1 percent higher than in 1984 and the largest annual increase since 1978-79. About two-thirds of the payments in 1985 were money payments (\$15.1 billion) and the remainder (\$7.4 billion) went for medical care for disabled workers. Private insurance companies made nearly three-fifths of these payments and State funds and self-insured employers each paid about one-fifth of the total benefit amount in 1985.

For the first time since 1978, the annual growth in employer costs exceeded the growth in workers' benefits, resulting in a slight decrease in the loss ratio for 1984-85. Employer costs were up nearly 17 percent from the previous year, reaching an estimated \$29.3 billion. Covered payrolls increased by 7 percent in that same period. Total benefit payments as a percent of payroll also increased noticeably in 1985.

Workers' compensation, the first social insurance program to be adopted in this country, provides medical care and income-maintenance protection to workers whose disability is the result of a work-related injury or illness and provides survivor benefits to the dependents of workers whose death results from a job-related accident and/or an occupational disease. These benefit payments are intended as partial replacement for lost wages and proof of employer negligence is not a prerequisite for benefit payment.

The Federal Act of 1908 was the first effective workers' compensation law in the United States. It provided limited benefits for certain Federal employees engaged in hazardous work. By 1911, workers' compensation legislation had been enacted in 10 States; by 1921, all but 6 States had established such programs. Today, 50 State workers' compensation programs and 3 Federal programs cover workers in the District of Columbia, Federal Government employees, and longshore and harbor workers.

The Black Lung program, generally considered a specialized workers' compensation program, was

established in 1970 to provide monthly cash benefits to totally disabled coal miners and their survivors. Medical benefits are also payable to an individual diagnosed as having pneumoconiosis (black lung disease) and for the treatment of conditions resulting from this disease. The benefit program is jointly administered by the Social Security Administration and the Department of Labor. Benefits are financed from general revenue funds and from monies acquired through an excise tax on mined coal tonnage.

The State programs generally are administered by industrial commissions or special units within State departments of labor, and the Federal programs are administered by the U. S. Department of Labor (except in the District of Columbia, which administers its own program). Although all programs are based on the principle of compensation without regard to fault, the enactment of a different law in each jurisdiction and repeated subsequent amendments to that law results in many variations among the State programs.

In the framework of their compensation systems, one difference among the States is in the method of ensuring that compensation will be paid. Employers provide benefits through three mechanisms: private or commercial insurance, publicly operated insurance, and self-

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insurance (used primarily by large employers who are able to provide proof of their financial ability to carry their own risk).

In all but six States, employers may buy commercial insurance to provide the required protection for workers. In four of these six States—Nevada, Ohio, Washington, and West Virginia—employers either must insure with exclusive State insurance funds or must self-insure. In North Dakota and Wyoming, employers must insure only through an exclusive State fund.

Both the amount of benefits paid to workers and the cost of the program to employers rose substantially from 1984 to 1985. Workers' compensation benefits totaled \$22.5 billion in 1985, an increase of 14.1 percent from the amount paid in the previous year and the largest increase in 6 years. Program costs, including acquisition expenses, profits, and administrative costs, totaled \$29.3 billion, a 16.7 percent increase from the 1984 total.

Coverage

In 1985, about 84.3 million workers were protected under workers' compensation laws—about 2.4 million more workers than had been covered in 1984. This increase of almost 3 percent followed an increase of 5 percent from 1983 to 1984. The number of workers covered during the past 10 years generally has followed changes in the total employment figures during the period. The proportion of covered workers to all wage and salary workers was 87 percent in 1985, approximately the same as it had been in each year since 1973.

Workers most likely to be exempted from coverage include domestics, agricultural workers, and casual laborers. Coverage is also incomplete among workers in small firms (3-5 employees), nonprofit institutions, and State and local governments, with the extent of coverage varying from State to State.

The estimated covered payroll in 1985—\$1,618 billion—was about 85 percent of the total wage and salary payroll. This proportion, like the proportion of covered workers, has remained within a narrow range (85-87 percent) since 1973. The increase of about \$102 billion in covered payroll from 1984 to 1985 was attributable to the higher number of persons in the work force and to rising wage levels.

Benefits

In 1985, workers' compensation benefit payments totaled \$22.5 billion (table 1). These payments were made by 50 State programs, the District of Columbia, two Federal programs (the Federal Employees' Compensation Act and the Longshoremen's and Harbor Workers' Compensation Act), and the Federal Black Lung program. Although total benefit payments were

Table 1.—Estimates of workers' compensation benefit payments, by type of benefit, 1984 and 1985

[Amounts in millions]

Type of benefit	Payment amounts		Percentage change
	1984	1985	
Total	\$19,685	\$22,470	14.1
Medical and hospitali- zation	6,424	7,381	14.9
Compensation	13,261	15,089	13.8
Disability	11,666	13,377	14.7
Survivor	1,595	1,711	7.3
Regular	18,044	20,867	15.6
Medical and hospitali- zation	6,315	7,303	15.6
Compensation	11,729	13,564	15.6
Disability	10,845	12,583	16.0
Survivor	884	981	11.0
Black lung	1,641	1,603	-2.3
Medical and hospitali- zation	108	77	-28.7
Compensation	1,533	1,526	-.5
Disability	822	795	-3.3
Survivor	711	731	2.8

14.1 percent higher than in 1984, the increase in regular benefits (all payments except those for the Black Lung program) was even greater—15.6 percent. Benefit payment increases during the 1980's averaged nearly 12 percent annually and the 1984-85 increase was the highest since the 1978-79 period.

During the past 15 years, benefit payments have increased at an annual rate of approximately 7.2 percent when measured in constant 1985 dollars, compared with 5.6 percent in the 1955-70 period. Several factors have contributed to this increased pace: (1) the Federal Black Lung program, which began in 1970; (2) inflationary increases in wages and medical costs; (3) improvements in State statutory benefit formulas, maximums, and coverage provisions; and (4) the increasing frequency and extent of injuries and illnesses.

Benefit payments to persons with black lung disease reached \$1.6 billion in 1985, slightly lower than in the previous year, reflecting a downward trend that is expected to continue as older beneficiaries die and a smaller number of new claimants is added to the program. Benefit payments under the Black Lung program peaked at \$1,739 million in 1980, with nearly 62 percent of that amount paid to disabled workers. From 1980 to 1985, the proportion of payments to disabled workers has steadily decreased while the proportion of payments to survivors has increased. This decline in payments to persons disabled by black lung disease in recent years has affected the overall growth in benefit levels: From 1980 to 1985, total benefits, when

measured in constant 1985 dollars, increased about 5.1 percent annually compared with 6.4 percent when black lung benefits are excluded.

Average wages, on which benefit amounts are based, rose 4.6 percent and medical care prices as measured by the Consumer Price Index were up 6.2 percent from 1984 to 1985. The continuing growth in wages and medical costs was reflected in increases in statutory maximum weekly benefit levels in most States. The average maximum weekly benefit amount for temporary total disability insurance payments rose 4.8 percent—from \$303.42 in 1984 to \$317.95 in 1985.

Another major influence on benefit levels is the frequency and extent of injuries and illnesses from work-related causes. According to the Bureau of Labor Statistics, the annual incidence rate (number of work-related injuries per 100 full-time workers) in 1985 was 7.9 percent, about the same as the rate in 1984. However, the average number of workdays lost for each workday case rose from 17.2 days in 1984 to 17.8 days in 1985. This was the fifth consecutive yearly increase in the severity rate.

Types of Payments

About two-thirds (\$15.1 billion) of the workers' compensation payments in 1985 were in the form of compensation—money payments—and the remaining one-third (\$7.4 billion) was for medical care provided to disabled workers (table 1). Compensation to disabled workers totaled \$13.4 billion and survivors of workers who died from work-related causes received \$1.7 billion.

Disability insurance payments have increased by nearly 62 percent since 1980; survivor payments were up only half that rate—31 percent—in the same period. Payments for medical and hospital care rose by 86 percent in the same 5-year period.

The distribution of benefits between the Black Lung program and the regular workers' compensation programs (all except black lung) was markedly different. Cash compensation paid to disabled workers and survivors accounted for roughly 65 percent of all payments made under regular programs, compared with 95 percent under the Black Lung program.

Types of Insurers

As discussed above, workers' compensation protection is provided by employers through private or commercial insurance, publicly operated insurance, and self-insurance. In 1985, private insurance companies paid for nearly three-fifths of all benefits (table 2); State funds and self-insured employers each paid about the same proportion (20.5 percent and 20.4 percent, respectively). The percentage paid by private insurance companies has remained about the same over the past 25 years; that paid by publicly operated funds decreased

Table 2.—Workers' compensation benefit payments, by type of insurer, selected years, 1939-85

Year	Total		Percent of benefits paid by—		
	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
1974 ¹	4.8	100.0	61.8	23.4	14.8
1984 ¹	18.0	100.0	58.8	20.9	20.3
1985 ¹	20.9	100.0	59.1	20.5	20.4

¹Excludes black lung benefits program.

from 25 percent in 1960, and the proportion paid by self-insurance in that quarter century increased from 12 percent.

Geographical Variations

The maximum amounts paid in indemnity benefits increased in all but six States, effective January 1, 1985. The increase was usually in proportion to gains in the average weekly earnings of workers covered under unemployment insurance. In 41 States, the maximum weekly workers' compensation benefit amount for temporary total disability insurance cases equaled or exceeded two-thirds of the Statewide average weekly wage; 31 States paid at least 100 percent of that amount. This maximum weekly benefit ranged from \$126 in Mississippi to \$1,114 in Alaska.

Total benefit payments increased 16.3 percent (excluding Federal programs) from 1984 to 1985, and in 23 States payments exceeded the average. The change in total benefits ranged from a 1.5 percent decrease in Wyoming to a 30.1 percent increase in Montana (table 3). The two largest programs, in terms of dollars paid, were in California and Texas, where the increases were 22.1 percent and 20.9 percent, respectively.

State variations in the benefit growth rate experienced during 1985, compared with 1984, are shown in table 4. More than twice as many States had increases of at least 20 percent during 1985, compared with 1984, and these States accounted for 31 percent of the work force covered by workers' compensation. About 15 percent of the work force were in States where benefit payments increased 15-20 percent from 1984 to 1985.

Substantial differences in benefit growth occurred among the Nation's geographic region in 1984-85. The growth rate ranged from 12.0 percent in the East North Central States to 21.5 percent in the Pacific region. During the past 10 years, above-average growth in benefits occurred in the New England and West North Central States in all but 1 year. The West South Central and Mountain States registered above-average

Table 3.—Estimates of workers' compensation benefit payments, by State and type of insurance, 1984 and 1985¹

[Amounts in thousands]

Jurisdiction	1984				1985				Percentage change in total payments
	Total	Insurance losses paid by private insurance ²	State and Federal fund disbursements ³	Self-insurance payments ⁴	Total	Insurance losses paid by private insurance ²	State and Federal fund disbursements ³	Self-insurance payments ⁴	
United States..	\$19,685,368	\$10,609,775	\$5,404,553	\$3,671,040	\$22,470,112	\$12,334,404	\$5,873,584	\$4,262,124	14.1
Alabama	166,350	118,850	...	47,500	202,577	144,577	...	58,000	21.8
Alaska	92,842	77,342	...	15,500	109,413	91,113	...	18,300	17.8
Arizona	165,243	92,518	57,703	15,022	197,571	108,643	70,967	17,961	19.6
Arkansas	133,735	89,135	...	44,600	142,170	99,270	...	42,900	6.3
California	2,655,267	1,538,604	319,663	797,000	3,243,307	1,866,429	402,878	974,000	22.1
Colorado	250,812	105,890	112,622	32,300	281,046	130,008	114,838	36,200	12.1
Connecticut	266,155	215,463	...	50,692	304,811	249,880	...	54,931	14.5
Delaware	36,208	27,308	...	8,900	40,057	30,757	...	9,300	10.6
District of Columbia	73,705	60,565	...	13,140	74,179	59,343	...	14,836	.6
Florida	685,085	482,115	...	202,970	814,546	560,982	...	253,564	18.9
Georgia	295,929	255,129	...	40,800	360,028	310,328	...	49,700	21.7
Hawaii	121,878	91,128	...	30,750	126,228	90,278	...	35,950	3.6
Idaho	56,048	38,688	11,260	6,100	66,031	45,935	13,146	6,950	17.8
Illinois	824,872	601,872	...	223,000	911,839	665,576	...	246,263	10.5
Indiana	133,984	116,784	...	17,200	152,301	132,801	...	19,500	13.7
Iowa	119,491	107,591	...	11,900	124,888	112,488	...	12,400	4.5
Kansas	125,791	107,441	...	18,350	141,700	120,800	...	20,900	12.6
Kentucky	193,854	145,354	...	48,500	225,279	168,779	...	56,500	16.2
Louisiana	431,448	345,148	...	86,300	465,971	372,771	...	93,200	8.0
Maine	169,547	127,747	...	41,800	210,969	158,969	...	52,000	24.4
Maryland	272,152	186,432	35,020	50,700	305,775	210,080	38,095	57,600	12.4
Massachusetts	451,329	414,029	...	37,300	509,661	468,361	...	41,300	12.9
Michigan	733,051	392,627	32,424	308,000	782,054	435,605	38,449	308,000	6.7
Minnesota	373,478	313,835	43	59,600	431,420	360,349	2,171	68,900	15.5
Mississippi	82,826	74,623	...	8,203	97,589	89,243	...	8,346	17.8
Missouri	195,316	158,916	...	36,400	233,248	189,748	...	43,500	19.4
Montana	78,651	31,651	38,666	8,334	102,356	40,142	52,835	9,379	30.1
Nebraska	60,832	53,132	...	7,700	65,443	57,143	...	8,300	7.6
Nevada	106,090	1,121	91,658	13,311	123,434	920	105,950	16,564	16.3
New Hampshire	76,595	67,298	...	9,297	90,964	80,599	...	10,365	18.8
New Jersey	443,733	377,233	...	66,500	501,382	422,482	...	78,900	13.0
New Mexico	113,851	107,451	...	6,400	139,522	131,622	...	7,900	22.5
New York	857,969	467,272	238,295	152,402	985,156	533,024	271,842	180,290	14.8
North Carolina	201,232	150,232	...	51,000	241,699	180,699	...	61,000	20.1
North Dakota	28,860	166	28,694	...	32,731	480	32,251	...	13.4
Ohio	1,259,348	4,022	818,726	436,600	1,440,672	4,921	931,751	504,000	14.4
Oklahoma	266,197	186,700	37,897	41,600	291,039	201,822	43,817	45,400	9.3
Oregon	345,838	123,373	165,665	56,800	406,611	156,380	182,631	67,600	17.6
Pennsylvania	888,046	631,466	53,580	203,000	998,343	716,951	52,392	229,000	12.4
Rhode Island	85,041	78,541	...	6,500	97,132	89,632	...	7,500	14.2
South Carolina	127,908	105,970	...	21,938	155,853	129,153	...	26,700	21.8
South Dakota	20,863	18,163	...	2,700	26,063	22,663	...	3,400	24.9
Tennessee	174,511	158,611	...	15,900	204,255	185,655	...	18,600	17.0
Texas	1,293,089	1,293,089	1,563,778	1,563,778	20.9
Utah	66,205	27,512	28,393	10,300	80,296	30,738	37,058	12,500	21.3
Vermont	25,250	23,150	...	2,100	30,328	27,828	...	2,500	20.1
Virginia	243,375	204,517	...	38,858	268,971	229,890	...	39,081	10.5
Washington	627,009	15,906	471,103	140,000	784,518	23,513	586,005	175,000	25.1
West Virginia	248,582	1,231	162,278	85,073	285,156	1,887	185,047	98,222	14.7
Wisconsin	238,577	196,377	...	42,200	287,303	228,381	...	58,922	20.4
Wyoming	47,753	457	47,296	...	47,043	988	46,055	...	-1.5

See footnotes at end of table.

Table 3.—Estimates of workers' compensation benefit payments, by State and type of insurance, 1984 and 1985¹—Continued

[Amounts in thousands]

Jurisdiction	1984				1985				Percentage change in total payments
	Total	Insurance losses paid by private insurance ²	State and Federal fund disbursements ³	Self-insurance payments ⁴	Total	Insurance losses paid by private insurance ²	State and Federal fund disbursements ³	Self-insurance payments ⁴	
Federal.....	\$2,653,567	...	\$2,653,567	...	\$2,665,406	...	\$2,665,406	...	0.4
Civilian employee program ⁵	1,003,563	...	1,003,563	...	1,055,285	...	1,055,285	...	5.2
Black lung program ⁶	1,641,131	...	1,641,131	...	1,602,977	...	1,602,977	...	-2.3
Other ⁷	8,873	...	8,873	...	7,144	...	7,144	...	-19.5

¹Data for 1985 preliminary; data for 1984 are 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 1984 and 1985. Includes benefit payments under the Longshoremen's and Harbor Workers' Compensation Act and extensions for the States in which such payments are made.

²Net cash and medical payments paid during calendar year by private insurance carriers under standard workers' compensation policies. Data primarily from A.M. Best Company, a national data-collecting agency for private insurance.

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

⁴Cash and medical benefits paid by self-insurers, plus the value of

medical benefits paid by employers carrying workers' compensation policies that do not include standard medical coverage. Estimated from available State data.

⁵Includes payment of supplemental pensions from general funds.

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

⁷Includes \$594,061,000 in 1984 and \$574,527,000 in 1985 paid by the Department of Labor.

⁸Primarily payments made to dependents of reservists who died while on duty in the Armed Forces, to individuals under the War Hazards Act, War Claims Acts, and Civilian War Benefits Act, and to Civil Air Patrol and Reserve Officers Training Corps personnel, persons involved in maritime war risks, and law enforcement officers (Public Law 90-921).

Table 4.—Number of States¹ and percentage distribution of covered workers, by percentage change in workers' compensation benefits, 1983-84 and 1984-85

Percentage change in benefits	Number of States		Percentage distribution of covered workers	
	1983-84	1984-85	1983-84	1984-85
Total.....	52	52	100.0	100.0
Decrease.....	2	1	1.7	.2
Increase:				
0.0-4.9.....	2	3	3.3	2.0
5.0-9.9.....	9	6	12.8	11.0
10.0-14.9.....	17	16	43.0	40.3
15.0-19.9.....	16	12	36.8	15.1
20.0 or more.....	6	14	2.4	31.4

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

gains in 8 years of that decade. Average or below-average gains in aggregate benefits paid were the norm in the Middle Atlantic and East North Central regions during that same period. This difference may have been due to the slower rate of growth in the labor force among the more industrialized States of these two geographical regions.

Employer Costs

The cost of workers' compensation to employers in 1985 was estimated at \$29.3 billion, an increase of nearly 17 percent over the cost in the previous year (table 5). This amount represents outlays for the payment of current benefits as well as reserves for future benefits, sales and operating costs, rehabilitation costs, claims administration, profits, and taxes. These costs include:

- \$19.5 billion in premiums paid to private carriers (17.2 percent higher than in 1984);
- \$5.2 billion in premiums paid to State funds and for Federal programs (15.3 percent higher than in 1984); and
- \$4.6 billion in self-insurance costs—benefits paid by self-insurers (16.1 percent higher than in 1984).

Payroll Ratio

While covered payrolls increased by less than 7 percent in 1984-85, employer costs increased at more than twice that rate. This difference resulted in a substantial increase in the ratio of costs to payroll (1.66 to 1.81), although the 1985 ratio was still below the average ratio of 1.90 for the 1976-81 period.

The increases in premiums paid continue to reflect an adjustment being made to the growth rate declines

Table 5.—Premium amounts paid for workers' compensation, by type of insurer, selected years, 1965-85

[Amounts in millions]

Year	Total	Private carriers	State funds	Federal programs ¹	Self-insurers
1965	\$2,908	\$2,084	\$493	\$77	\$254
1970	4,894	3,578	699	152	465
1975	8,972	6,344	1,278	435	916
1980	22,256	15,744	3,008	1,142	2,363
1981	23,014	16,164	2,900	1,174	2,776
1982	22,764	15,398	2,640	1,509	3,217
1983	23,048	15,384	2,695	1,458	3,511
1984	25,122	16,632	2,975	1,569	3,946
1985	29,320	19,500	3,518	1,721	4,582

¹Includes Federal employer compensation program and that portion of Federal black lung benefits program financed from

employer contributions.

experienced from 1977 to 1982. During that 5-year period, insurers responded to pressure by employers and State regulators to contain workers' compensation costs. Their response resulted in premium levels that were insufficient to meet the continued growth in benefit payments.

Premium costs increased by nearly 32 percent from 1980 to 1985. Premium costs for Federal employees' compensation and for self-insurers increased 51 percent and 94 percent, respectively. The premium amounts shown for these two groups are based primarily on benefit expenditures and often do not exhibit the same growth patterns as the actuarially funded private and State insurance programs.

Loss Ratio

For the first time since 1978, the annual growth in employer costs exceeded that of worker benefits, resulting in a slight decrease in the loss ratio from 1984 to 1985. This ratio represents the proportion of the premium dollar returned to the insured worker in the form of cash payments and medical services. From

1978 to 1984, as States established more rate competition and tightened claims administration—resulting in lower employer costs—this ratio increased from 51 percent to 73 percent. In 1985, the loss ratio was about 72 percent.

The experience reported by private carriers also showed a decline in the loss ratio (65 percent to 64 percent). This ratio is compiled from data on benefits paid (direct losses) and premiums written. In 1978, this ratio was 43 percent.

For 1985, the loss ratio for the 18 State funds was 91 percent, down slightly from the previous year. This change marked the first decline since 1978. From 1978 to 1984, the ratio had increased steadily from a series low point of 50 percent.

Total benefit payments as a percentage of payroll also increased noticeably in 1985. Excluding black lung benefits and the small amount of State benefits funded from general revenues, cash and medical benefits were \$1.31 for every \$100 of covered payroll. This ratio was the highest since the inception of the series. Until 1979, it had been less than \$1.00 annually.