Workers’ Compensation Crisis Revisited

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Workers’ compensation systems across the country are once again in a full-fledged crisis, marked by high premiums and low benefits. Workers’ compensation costs in private industry rose 17.1 percent from January 2002 to June 2003, the highest increase in any component of compensation.

Meanwhile, workers’ compensation benefits paid out have dropped from $2.16 per $100 of covered wages in 1992 to $1.39 per $100. The rapid rise in rates, however, has spurred employers to demand deeper cuts in already inadequate benefits.

Employers’ costs for workers’ compensation now average 41 cents per hour, or 1.8 percent of total payroll, well above the earlier peak of 38 cents per hour recorded in 1997, according to the Bureau of Labor Statistics. But in most states, benefits remain at the same inadequate levels that have marked workers’ compensation for decades, and the disparities in benefit payments between states have reached absurd proportions.

Under the patchwork of state laws, the protections and benefits provided to injured workers vary significantly. Maximum weekly benefits for temporary total disability range from more than $1,000 a week in Iowa, an amount that equals 200 percent of the state’s average wage, to $400 in New York, or less than half of the state’s average wage. Ohio caps benefits for permanent partial disability at 200 weeks; some states provide benefits for the duration of the disability.

In California, Oregon and Utah, employers’ rate rose more than 30 percent from 2002 to 2003, according to Actuarial Solutions, a workers’ compensation consulting firm. The Council of Insurance Agents and Brokers reports that 70 percent of employers renewing workers’ compensation policies in the first half of this year saw increases of up to 30 percent. The availability of workers’ compensation insurance is now a serious problem in California, Texas, Florida and New York.

These huge increases in workers’ compensation premiums are occurring in the context of higher employer costs for employee health insurance and double-digit increases in almost all lines of commercial property and casualty insurance.

Increased costs have triggered another round of employer demands for state legislation to cut benefits and restrict coverage. Hundreds of bills have been introduced in state legislatures. Florida slashed benefits in July. New restrictions on physician choice went into effect in September in Texas.

In the mid-1990s, workers’ compensation insurers cut premiums and engaged in an all-out price war to win market share, feeding off of high investment returns. Then the stock market crashed and, simultaneously medical costs rose dramatically.

With premiums set below the amount necessary to cover claims and investments headed south, carriers hiked premiums by huge amounts. Employers, gouged by the higher rates, demanded relief from state legislatures. In almost all cases, the "relief" came straight out of workers’ benefit payments, with little attempt to regulate the insurers or medical providers who precipitated the crisis.

While rates are soaring, workplace injuries that lead to lost work days have declined from 3.0 per 100 full-time workers in 1992 to 1.7 in 2001, according to the most recent data from the Bureau of Labor Statistics.

California reflects the chaos that marks the workers’ compensation system nationwide. California had the highest workers’ compensation costs and lowest real maximum wage-loss benefits in the country until new laws effective in 1995 unleashed competitive pricing but left benefits at low levels. A carrier war for market share ensued.

By 1999, rates in California had dropped to less than two-thirds of their 1989 level. Dozens of carriers fled the state or went out of business, and more than a fourth of private capacity disappeared. Employers were forced into the state fund, which quickly reached the brink of insolvency.

The remaining carriers in the state raised rates astronomically beginning in 2000, while benefits remained low, precipitating yet another crisis and new rounds of legislation in 2002 and 2003. With its latest reforms, California now stands in the middle range of state benefit payments, but employers are already pushing for cost-cutting changes.

Results for insurance carriers in many states are now improving slightly as higher premiums, better investment returns and lower benefit payments boost profitability, but the crisis will only begin anew as the market improves and carriers once again focus on market share.

The only lasting solution is to regulate workers' compensation rates so that premiums bear a direct relationship to the actual level of anticipated claims and investment income, and benefits follow uniform guidelines. Without regulation, insurers will continue to engage in the destructive boom-and-bust cycle that incites wage and benefit cuts by employers, provokes bad legislation, and leaves workers with inadequate benefits.

Workers' Compensation Costs 2002-2003, Private Industry

Per hour worked

Q1 02	.35
Q2 02	.37
Q3 02	.38
Q4 02	.38
Q1 03	.40
Q2 03	.41

As a percent of payroll

Q1 02	1.6
Q2 02	1.7
Q3 02	1.7
Q4 02	1.7
Q1 03	1.8
Q2 03	1.8

Source: Bureau of Labor Statistics.