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# Workers' Compensation: 1978 Program Update

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Workers' compensation is one of the few State-administered income-maintenance programs operating throughout the United States. The national "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 developed and continues to improve basic statistics to measure trends and progress in workers' compensation and to evaluate the program, 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. This article includes an historical perspective on the estimates, dating from 1940.

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Workers' compensation is the social insurance program that protects workers against disability incurred from on-the-job causes. Established as individual State programs, each operates independently under its own law. Indemnity benefits are provided through: (1) Cash payments for total disability and death, replacing a portion of lost wages; (2) cash payments for partial disability, often as a scheduled payment for loss of specific body parts or functions; (3) medical care benefits; and (4) to a varying extent, rehabilitation services. Benefits generally are paid weekly or, especially when determination of eligibility and the amount to be received is negotiated between employers and/or their insurance companies on the one hand and workers and/or their union or lawyer representatives on the other, the payment may be a lump sum.

Workers' compensation complements the old-age, survivors, and disability insurance (OASDI) program in offering income-maintenance and medical protection for short-term disability and for permanent partial disabilities. Because they both provide benefits for permanent total disability and death, the workers' compensation and OASDI programs overlap. A 1965 amendment to the Social Security Act has helped rationalize the overlap in disability benefits by reducing the OASDI payment when it plus the workers' com-

pensation payment exceed 80 percent of the worker's earnings. Workers' compensation and supplemental security income (SSI) payments are complementary because disabled workers and survivors of workers who died from job-related causes may turn to SSI for support when workers' compensation benefits either end or furnish insufficient income replacement.

Another important connection between workers' compensation and the rest of the Nation's social security system has been establishment of Federal black lung benefits. This program was established in 1970 to pay income-maintenance benefits to coal miners disabled with pneumoconiosis (black lung disease) contracted as a result of their work. Claims were filed and benefits paid by the Social Security Administration, financed from general revenues. Starting July 1973, new claims are the responsibility of the Department of Labor, which assigns the liability to the coal-mining industry and individual employers where appropriate. Federal black lung data are reported in national workers' compensation program totals, except where indicated otherwise in order to distinguish between black lung and regular State program experience.

Recently, workers' compensation payments (including those made under the black lung program) have amounted to about three-fourths of the benefits paid under the disability insurance (DI) part of the OASDI program. In 1978, employers and insurance companies paid \$9.7 billion in workers' compensation

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benefits to employees disabled from work-related causes. This figure was 12.9 percent above the amount paid in 1977, an increase largely attributable to the greater number of workers and to the higher worker wage levels under the State programs. During the same period, disability benefits paid under the DI program rose 9.2 percent. Comparisons between these two programs should be limited, however, because of the differences in their scope. Unlike the DI program, for example, workers' compensation provides benefits to workers who are partially disabled. Also, the payments compared here include medical benefits under workers' compensation but only cash payments under the DI program.

The Social Security Administration estimates that 75.2-75.9 million wage and salary workers were covered under workers' compensation laws in 1978 and that the associated payroll amounted to \$913-922 billion. Changes in the past few years in the number of workers protected under workers' compensation reflect overall labor-force trends in the economy. Similarly, the growth in payroll covered by workers' compensation in the mid-1970's represented growth in the labor force and in wage inflation. Little statutory extension of coverage has taken place in the past several years.

The cost of workers' compensation to employers in 1978 was \$17.0 billion, a 20.3-percent rise over the 1977 level. This amount includes benefits, operating costs, litigation expenses, and the administrative expenses of regulatory agencies. This year was the third in a row in which workers' compensation costs rose at least 20 percent.

## Coverage

An estimated 75.2-75.9 million workers were covered under workers' compensation laws in 1978. These figures are similar to the coverage level for wage and salary workers under the OASDI program, although the similarity to some extent is achieved by the combination of some differences in coverage provisions. Workers' compensation covers Federal civilian employees, but the OASDI program does not. Workers in small firms, farm workers, and casual workers are included under the OASDI program if they earn sufficient wage credits but are less likely to be under workers' compensation coverage. The other main difference in coverage between the two systems is that workers' compensation is aimed strictly at wage and salary workers, and the OASDI system also includes the self-employed.

The number of persons covered under workers' compensation in 1978 was 3.5 million higher than in 1977. This large increase was primarily a reflection of growth in the labor force. The proportion of covered workers to all wage and salary workers was 88 percent in 1978, a

proportion that has been stable since 1974 after a period of moderate growth in the early 1970's.

Few major changes in coverage were enacted by States from 1977 to 1978. Some States increased while others decreased coverage. Florida, which previously covered workers regardless of the size of the firm, reduced coverage by law to include only employees in firms with three or more workers. At least four States narrowed the coverage available to domestic and/or casual workers.

Oklahoma added workers in single-employee firms (previously coverage began with firms with two or more employees), several States added specified groups of State or local government employees, and Tennessee authorized full coverage of occupational disease. (Three other States expanded occupational disease coverage.)

The estimated covered payroll of \$913-922 billion represented 85 percent of the total payroll of all wage and salary workers in 1978. Like the proportion of workers covered, the proportion of the total payroll covered under workers' compensation has been stable for several years after experiencing some growth in the early 1970's. The \$101 billion increase in the absolute amount of estimated covered payroll from 1977 to 1978 was attributable to the rising number of persons in the work force and to the upward wage spiral.

## Benefits

Cash indemnity payments and medical care benefits under workers' compensation totaled \$9.7 billion in 1978. These payments were made by employers under each State program and by the Federal Government under programs for miners (black lung benefits), disabled Federal employees, employees of the District of Columbia, and longshore and harbor workers. The 1978 benefit payments were \$1.1 billion, or 12.9 percent, higher than the 1977 total. With black lung payments excluded, the \$8.7 billion paid in workers' compensation during 1978 was 13.8 percent above the level of the preceding year. The annual rates of increase were below each of those recorded for 1973-77 but well above those that characterized most preceding years.

Two factors that significantly influenced the substantial growth in benefit payments in 1978 were the rise in covered workers' average annual wage levels by 7 percent to \$12,144 and the 8-percent increase in the medical care component of the Consumer Price Index reported by the Bureau of Labor Statistics. Both of these indicators have followed a pattern in recent years similar to that of workers' compensation benefit payments: generally larger annual increases in the past several years than in 1960-72. The 1978 annual

increase of 8 percent in the medical index was lower than the annual increases in 1974-77 and thus also roughly paralleled the recent pattern in workers' compensation medical benefit increments.

The rates of work-related injuries and disease are another significant factor in workers' compensation benefit levels, and these were stable in 1978. The annual incidence rate (number of work-related injuries per 100 full-time workers) in 1978 was 9.4,<sup>1</sup> about the same as it was from 1975 through 1977. The number of work days lost per lost work-day case was 15.7 for 1978.

<sup>1</sup> Department of Labor, News Release, November 7, 1979.

This rate was also similar to those recorded in recent years—15.4-17.2 for the 6 years reported in the Bureau of Labor Statistics' current series (1973-78).

Historically, workers' compensation benefits have shown accelerated growth since 1940 (table 1 and accompanying chart). Not until 1956 did the annual benefit payout under workers' compensation reach the \$1-billion mark. Ten years later, \$2 billion was paid in one year. It then took just 4 years to reach the \$3 billion level in 1970.

Since then, annual benefit payments have gone up even quicker, more than tripling by 1978. The larger size of the benefit expenditure increases in the 1970's

**Table 1.—Workers' compensation coverage, benefits, and costs, 1940, 1946, and 1948-78<sup>1</sup>**

Calendar year	Ranges in estimated number of workers covered per month (in millions)	Benefits paid during year (in millions)								Percent of covered payroll	
		Total	Type of insurance			Type of benefit			Cost of workers' compensation <sup>5, 6</sup>	Benefits <sup>6</sup>	
			Insurance losses paid by private carriers <sup>2</sup>	State and Federal fund disbursements <sup>3</sup>	Employers' self-insurance payments <sup>4</sup>	Medical and hospitalization	Compensation payments				
							Total	Disability			Survivor
1940.....	24.2-25.0	\$256	\$135	\$73	\$48	\$95	\$161	\$129	\$32	1.19	0.72
1946.....	32.2-33.2	434	270	96	68	140	294	250	44	.91	.54
1948.....	35.6-36.3	534	335	121	78	175	359	309	50	.96	.51
1949.....	34.9-35.7	566	353	132	81	185	381	329	52	.98	.55
1950.....	36.5-37.2	615	381	149	85	200	415	360	55	.89	.54
1951.....	38.3-39.0	709	444	170	94	233	476	416	60	.90	.54
1952.....	39.1-39.7	785	491	193	101	260	525	460	65	.94	.55
1953.....	40.4-41.0	841	524	210	107	280	561	491	70	.97	.55
1954.....	39.5-40.0	876	540	225	110	308	568	498	70	.98	.57
1955.....	41.2-41.6	916	563	238	115	325	591	521	70	.91	.55
1956.....	42.8-43.1	1,002	618	259	125	350	652	577	75	.92	.55
1957.....	43.2-43.4	1,062	661	271	130	360	702	617	85	.91	.56
1958.....	42.4-42.6	1,112	694	285	132	375	737	647	90	.91	.58
1959.....	43.9-44.1	1,210	753	316	141	410	800	700	100	.89	.58
1960.....	44.8-45.0	1,295	810	325	160	435	860	755	105	.93	.59
1961.....	44.9-45.1	1,374	851	347	176	460	914	804	110	.95	.61
1962.....	46.1-46.3	1,489	924	371	194	495	994	879	115	.96	.62
1963.....	47.2-47.4	1,582	988	388	207	525	1,057	932	125	.99	.62
1964.....	48.6-48.9	1,707	1,070	412	226	565	1,142	1,007	135	1.00	.63
1965.....	50.6-50.9	1,814	1,124	445	244	600	1,214	1,074	140	1.00	.61
1966.....	53.5-53.8	2,000	1,239	486	275	680	1,320	1,170	150	1.02	.61
1967.....	54.9-55.1	2,189	1,363	524	303	750	1,439	1,284	155	1.07	.63
1968.....	56.7-56.9	2,376	1,482	556	338	830	1,546	1,381	165	1.07	.62
1969.....	58.8-59.1	2,634	1,641	607	386	920	1,714	1,529	185	1.08	.62
1970.....	59.0-59.3	3,031	1,843	755	432	1,050	1,981	1,751	230	1.11	.66
1971.....	59.2-59.5	3,563	2,005	1,098	460	1,130	2,433	2,068	365	1.11	.67
1972.....	62.1-62.5	4,061	2,179	1,379	504	1,250	2,811	2,351	460	1.14	.68
1973.....	66.0-66.5	5,103	2,514	1,998	592	1,480	3,623	2,953	670	1.17	.70
1974.....	67.8-68.2	5,781	2,971	2,086	724	1,760	4,021	3,351	670	1.24	.75
1975.....	67.0-67.4	6,598	3,422	2,324	852	2,030	4,568	3,843	725	1.32	.83
1976.....	69.3-69.9	7,597	3,976	2,589	1,031	2,380	5,217	4,402	815	1.48	.88
1977.....	71.8-72.4	8,623	4,629	2,743	1,252	2,680	5,943	5,068	875	1.73	.93
1978.....	75.2-75.9	9,734	5,256	3,061	1,417	2,960	6,775	5,815	960	1.85	.94

<sup>1</sup> Beginning 1959, includes Alaska and Hawaii.

<sup>2</sup> Net cash and medical benefits paid during calendar year by private insurance companies under standard workers' compensation policies.

<sup>3</sup> Net cash and medical benefits paid by competitive and exclusive State funds and by Federal system for government employees; and, beginning 1970, cash benefits paid under Federal "black lung" program.

<sup>4</sup> Cash and medical benefits paid by self-insurers, plus value of medical benefits paid by employers carrying workers' compensation policies that exclude

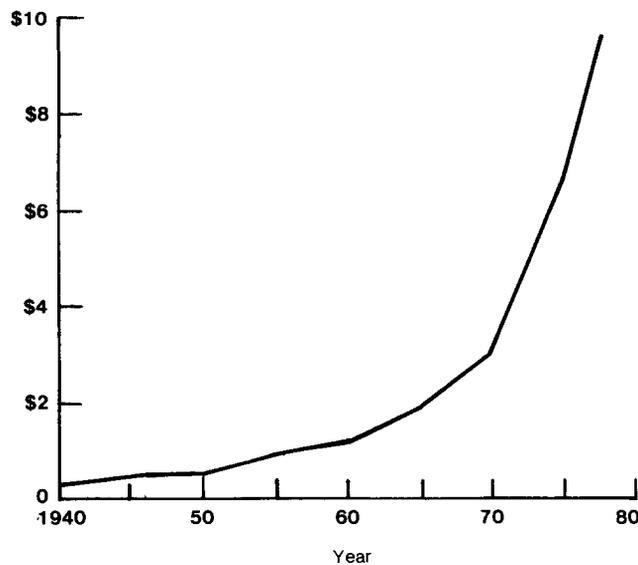
standard medical coverage.

<sup>5</sup> Premiums written by private carriers and State funds, and benefits paid by self-insurers increased by 5-10 percent to allow for administrative costs; also includes benefits paid and administrative costs of Federal system for government employees.

<sup>6</sup> Excludes programs financed from general revenues—"black lung" benefits and supplemental pensions in a few States.

**Chart 1.**—Growth in workers' compensation benefits, selected years, 1940-78

Annual benefits paid (in billions)



has resulted from (1) the impact of the Federal black lung program introduced in 1970; (2) the unusual extent of improvements in State statutory benefit formulas and maximums, and coverage provisions; and (3) the effect of the growing pace of inflation on wages and medical care costs and, consequently, on benefit levels.

### Black Lung Benefit Trends

The Social Security Administration and the Department of Labor paid \$1 billion in black lung benefits in 1978. Black lung payments have fluctuated within \$50 million of the \$1-billion mark beginning with 1973.

As indicated in table 2, black lung benefits in 1978 included \$592 million paid to disabled miners and their families and \$429 million paid to survivors. Trends that may be emerging in the composition of black lung benefit payments can be traced through examination of the share going to survivors. Of the total paid to survivors, \$410 million was paid by the Social Security Administration. This latter figure was estimated from reports showing that 42.3 percent of black lung payments made by the Social Security Administration went to survivors in 1978. The reported data show a slow but consistent increase in the survivor share of black lung benefits, starting with 1974 when they accounted for 36.7 percent of the total paid by the Social Security Administration. In the absence of future statutory changes in benefit entitlement, a greater proportion of black lung benefit payments are expected to be paid each year to survivors. This pattern will result from a lack of new miner claims authorized since 1973 under the part of the program administered by the Social

**Table 2.**—Estimates of workers' compensation payments by type of benefits, 1978 and 1977

[Amounts in millions]

Type of payment	1978	1977	Percentage change
Total .....	\$9,734	\$8,623	12.9
Regular .....	8,712	7,655	13.8
Black lung .....	1,023	968	5.7
Medical and hospitalization .....	1,296	1,268	10.4
Compensation .....	6,775	5,943	14.0
Regular .....	5,754	4,977	15.6
Black lung .....	1,021	966	5.7
Disability .....	5,815	5,068	14.7
Regular .....	5,223	4,495	16.2
Black lung .....	592	573	3.3
Survivor .....	960	875	9.7
Regular .....	531	482	10.2
Black lung .....	429	393	9.2

<sup>1</sup> Includes \$2.1 million in 1977 and \$1.8 million in 1978 paid for medical services under the black lung program.

Security Administration combined with the inevitable growth in the number of survivor beneficiaries.

The future benefit pattern under the part of the black lung program administered by the Department of Labor is yet to be determined. In 1978, total black lung payments under that Department's auspices more than doubled to \$58 million but still represented a small fraction of the rest of the black lung benefits program. Information indicates that, as a result of the many new beneficiaries added to the rolls by the 1977 amendments,<sup>2</sup> benefit payments under Labor Department auspices increased in 1979 to about \$750 million. Almost one-third of this amount went to survivors, but the future direction of the ratio of survivor to total payments is still uncertain. The pattern will be determined by the relationship of new claims filed each year and the mortality rates of miner beneficiaries already on the rolls.

### Types of Workers' Compensation Payments

About \$6.8 billion was paid in cash indemnity benefits to workers and their survivors during 1978. This amount represented 70 percent of all workers' compensation in that year, with the balance consisting of medical payments. As table 2 shows, \$5.8 billion of the cash benefits went to disabled workers and \$1.0 billion was paid to survivors of workers who died from work-related causes. Benefits to disabled workers rose 15 percent over the 1977 amount, and the survivor portion in 1978 was 10 percent above the previous year's figure.

Cash payments for disability represented 60 percent of all benefits paid in 1978. Survivor benefits amounted to 10 percent of the total. Minus black lung benefits,

<sup>2</sup> For a brief description of the changes in the black lung program made by the 1977 amendments, see "Black Lung Amendments of 1977," *Social Security Bulletin*, August 1978, pages 26-27.

however, the \$531 million in payments to survivors under the regular workers' compensation program was 6 percent. These different shares for survivor payments reflect the high proportion (42 percent) of survivor benefits paid under the black lung program. Under that program, beneficiaries are older and consequently there are relatively more survivor beneficiaries and higher aggregate survivor benefits paid than under regular workers' compensation.

Medical payments came to \$3 billion in 1978—30 percent of the total. There was a striking difference between the Federal black lung and regular workers' compensation programs with respect to the relative importance of medical benefits under each. Except for \$2 million, all medical benefits were paid through the regular workers' compensation system.

With black lung benefits excluded, medical payments accounted for 34 percent of all benefits under the regular workers' compensation programs in 1978. This proportion is slightly lower than the highest ratio from 1946, estimated at 36 percent in the middle 1970's. Medical payments have accounted for about a third of workers' compensation payments throughout most of the years that the data have been compiled, beginning with 1940. The small decline in the ratio of medical to total payments during the past few years is a result of large increases in cash benefits to workers with major partial and permanent total disabilities.

The workers' compensation system can also be characterized in terms of the amount of benefits provided by type of insurer. Interest has been shown over the years in the role of private insurers, publicly funded State plans, and self-insurance as alternative means of operating a social insurance program like workers' compensation. Benefits paid by State and by type of insurance carrier in 1977 and 1978 are shown in table 3. The \$5.3 billion paid through private insurance accounted for 54 percent of the total in 1978. With the amounts disbursed under the black lung program excluded, private insurance payments represented 60 percent of the total, a proportion that has remained about the same for many years. Payments in 1978 made through State funds (23 percent) and through self-insured employers (16 percent) also exhibited a rather stable pattern.

## State Benefit Patterns

In addition to workers' wage levels, work-injury rates, medical care cost levels, and changes in the size of the covered work force (all discussed above), individual State statutory provisions are also a major determinant of trends in the amount of benefits paid. The maximum weekly benefits for temporary total disability at the beginning of 1978 ranges from \$60 in Oklahoma to \$608 in Alaska. As a result of 1978 legislation and

automatic benefit increases, the average statutory maximum weekly benefit amount—weighted by covered employment in each State—rose 11 percent, from \$185 to \$205.

Maximum weekly benefits for temporary total disability rose in all but four States in 1978. Benefits rose in all 42 of the jurisdictions with flexible maximum benefits that increase automatically, usually proportionately with rises in average weekly earnings of workers covered under the unemployment insurance. Two of these States liberalized the benefit formula for temporary benefits: Connecticut increased the maximum benefit from 66.7 percent to 85.0 percent of the State production wage; West Virginia raised the wage replacement rate for each worker from 66.7 percent to 70 percent.

In contrast to the upgrading of maximums in 1978 in all of the States providing automatic increases, improvements were enacted in only 6 of the 10 States that must pass legislation to effect increases. (The other four States did grant increases in 1977.) Maximums rose in all jurisdictions with flexible maximums, but increased in only two of the other 10 States during both years 1977 and 1978.

Flexible maximum provisions allow statutory benefit levels to keep pace with rising wage levels. To ensure adequacy, however, the amount that is being automatically adjusted must be high enough in the first instance to protect most workers. The National Commission on State Workmen's Compensation Laws recommended that the statutory maximum weekly benefit for temporary total disability be at least 133.3 percent of the State average weekly wage by July 1, 1977, so that the benefit computed for most workers would not be limited by the maximum. Only seven jurisdictions (including the program for Federal employees) met this level by the beginning of 1978. In fact, nine of the States with flexible maximums restricted the maximum to 66.7 percent of their average wage.

Other benefit improvements made during 1978 included a few changes in benefits for permanent partial disability, and increased benefits to survivors in 12 States. Still other, more prevalent, changes in 1978 that could have important effects on benefits paid are various administrative actions. "Twenty-five States placed emphasis on administrative changes designed to clarify or simplify the responsibilities of all parties involved in a workers' compensation case. Additionally, penalties were established or strengthened to ensure that such responsibilities were carried out."<sup>3</sup> There is no way, however, to assess the overall impact on benefits that these types of changes are likely to produce.

The \$1.2 billion paid to workers in California in 1978 was by far the largest amount paid in any State (table

<sup>3</sup> Gerri Minor, "Workers' Compensation Laws—Key State Amendments of 1978," *Monthly Labor Review*, January 1979.

**Table 3.—Estimates of workers' compensation payments, by State and type of insurance, 1978 and 1977<sup>1</sup>**

[In thousands]

State	1978				1977				Percentage change in total payments from 1977 to 1978
	Total	Insurance losses paid by private insurance <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 .....	\$9,734,180	\$5,256,105	\$3,061,403	\$1,416,672	\$8,622,852	\$4,628,695	\$2,742,530	\$1,251,627	12.9
Alabama .....	84,624	60,624	.....	24,000	73,032	52,032	.....	21,000	15.9
Alaska .....	56,924	52,724	.....	4,200	51,550	48,150	.....	3,400	10.4
Arizona .....	87,162	44,579	38,533	4,050	79,620	41,809	34,011	3,800	9.5
Arkansas .....	56,283	47,283	.....	9,000	48,436	40,736	.....	7,700	16.2
California .....	1,246,813	736,873	207,940	302,000	1,128,327	658,426	194,901	275,000	10.5
Colorado .....	73,789	26,279	41,010	6,500	60,788	23,988	31,300	5,500	21.4
Connecticut .....	89,033	80,433	.....	8,600	78,399	70,799	.....	7,600	13.6
Delaware .....	16,379	13,079	.....	3,300	13,405	10,705	.....	2,700	22.2
Dist. of Columbia .....	51,138	44,428	.....	6,710	45,120	40,090	.....	5,030	13.3
Florida .....	307,868	270,868	.....	37,000	301,415	265,315	.....	36,100	2.1
Georgia .....	129,879	110,979	.....	18,900	109,421	93,521	.....	15,900	18.7
Hawaii .....	40,160	29,910	.....	10,250	34,410	25,610	.....	8,800	16.7
Idaho .....	29,873	20,825	5,348	3,700	26,844	18,707	4,837	3,300	11.3
Illinois .....	490,010	412,010	.....	78,000	394,973	331,973	.....	63,000	24.1
Indiana .....	89,708	75,408	.....	14,300	76,051	64,051	.....	12,000	18.0
Iowa .....	71,457	59,457	.....	12,000	56,979	47,479	.....	9,500	25.4
Kansas .....	56,210	50,010	.....	6,200	47,181	42,011	.....	5,170	19.1
Kentucky .....	102,594	87,994	.....	14,600	93,406	80,106	.....	13,300	9.8
Louisiana .....	198,838	172,838	.....	26,000	160,878	139,878	.....	21,000	23.6
Maine .....	44,494	38,694	.....	5,800	33,335	28,935	.....	4,400	33.5
Maryland .....	130,266	96,386	8,080	25,800	109,286	83,742	7,024	18,520	19.2
Massachusetts .....	191,494	178,494	.....	13,000	176,207	164,207	.....	12,000	8.7
Michigan .....	496,987	270,700	20,437	205,850	436,544	252,569	16,225	167,750	13.8
Minnesota .....	173,523	148,523	.....	25,000	135,168	115,668	.....	19,500	28.4
Mississippi .....	42,074	38,024	.....	4,050	36,205	32,705	.....	3,500	16.2
Missouri .....	92,170	79,970	.....	12,200	78,751	68,351	.....	10,400	17.0
Montana .....	29,403	11,883	513,968	3,552	23,824	10,192	510,326	3,306	23.4
Nebraska .....	28,129	25,329	.....	2,800	23,287	20,987	.....	2,300	20.8
Nevada .....	50,379	130	49,459	790	37,703	78	37,035	590	33.6
New Hampshire .....	30,914	28,914	.....	2,000	26,335	24,635	.....	1,700	17.4
New Jersey .....	268,441	241,621	.....	26,820	245,287	219,987	.....	25,300	9.4
New Mexico .....	36,638	33,338	.....	3,300	29,490	26,790	.....	2,700	24.2
New York .....	496,606	294,823	133,783	68,000	475,710	291,303	119,107	65,300	4.4
North Carolina .....	93,668	77,868	.....	15,800	77,256	63,356	.....	13,900	21.2
North Dakota .....	12,904	41	12,863	.....	11,633	73	11,560	.....	10.9
Ohio .....	531,518	1,377	5376,141	154,000	477,530	998	5323,532	153,000	11.3
Oklahoma .....	82,865	55,700	13,815	13,350	76,700	53,100	10,150	13,450	8.0
Oregon .....	230,072	66,297	137,275	26,500	195,426	59,483	115,043	20,900	17.7
Pennsylvania .....	403,113	271,938	557,175	74,000	342,034	232,049	547,985	62,000	17.9
Rhode Island .....	34,247	32,447	.....	1,800	27,756	26,256	.....	1,500	23.4
South Carolina .....	54,092	46,192	.....	7,900	46,117	39,417	.....	6,700	17.3
South Dakota .....	9,058	7,858	.....	1,200	7,243	6,293	.....	950	25.1
Tennessee .....	95,890	85,590	.....	10,300	83,898	76,298	.....	7,600	14.3
Texas .....	506,255	506,255	.....	.....	449,489	449,489	.....	.....	12.6
Utah .....	28,394	7,229	16,365	4,800	23,767	6,277	13,490	4,000	19.5
Vermont .....	10,446	9,596	.....	850	8,878	8,178	.....	700	17.7
Virginia .....	119,615	94,215	.....	25,400	100,336	79,036	.....	21,300	19.2
Washington .....	224,770	8,573	181,997	34,200	198,584	7,786	160,589	30,209	13.2
West Virginia .....	125,019	188	88,631	36,200	108,956	105	77,299	31,552	14.7
Wisconsin .....	123,333	101,233	.....	22,100	111,675	84,875	.....	26,800	10.4
Wyoming .....	9,603	78	9,525	.....	8,323	91	8,232	.....	15.4
Federal work-injury programs:									
Civilian employees <sup>6</sup> .....	617,713	.....	617,713	.....	543,356	.....	543,356	.....	13.7
"Black lung" benefits <sup>7</sup> .....	1,022,625	.....	1,022,625	.....	967,833	.....	967,833	.....	5.7
Other <sup>8</sup> .....	8,720	.....	8,720	.....	8,695	.....	8,695	.....	.3

<sup>1</sup> Data for 1978 preliminary. Calendar-year figures, except that data for Montana and West Virginia, for Federal civilian employees and "other" Federal workers' compensation, and for State fund disbursements in Maryland, Nevada, North Dakota, Utah, Washington, and Wyoming represent fiscal years ended in 1977 and 1978. Includes benefit payments under the Longshoremen's and Harbor Workers' Compensation Act and Defense Bases Compensation Act for the States in which such payments are made.

<sup>2</sup> 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.

<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 workers' compensation 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 \$23,548,000 in 1977 and \$57,564,000 in 1978 paid by the Department of Labor.

<sup>8</sup> 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 cases involving Civil Air Patrol and Reserve Officers Training Corps personnel, maritime war risks, and law-enforcement officers under P.L. 90-921.

3). In fact, in both 1977 and 1978, payments made to California workers exceeded the national total under the Federal black lung program. At the other end of the range, workers' compensation benefits amounted to only \$9 million in South Dakota. The amounts paid by States correspond roughly to the relative size of their labor force and population. The importance of such other factors as statutory benefit levels and injury rates is apparent in the case of South Dakota, where the labor force is larger than that of at least five other States.

The increase in total benefits from 1977 to 1978, which was 12.9 percent nationally, ranged from 2.1 percent in Florida to 33.6 percent in Nevada. The slightly slower rate of growth in benefits during 1978 compared with 1977 is reflected in the following tabulation. Although benefits rose by at least 20 percent in 21 States from 1976 to 1977, the number of States in this category fell to 14 during the 1977-78 interval. Correspondingly, employees covered by workers' compensation in States with a 20-percent annual increase in benefits accounted for 27 percent of the total in the 1976-77 period but represented only 17 percent in the 1977-78 interval. An interesting perspective can be noted by contrasting changes in the recent period with those of 10 years earlier. In 1968, only two States with less than 1 percent of all covered workers reported a growth in workers' compensation benefits over the previous year of at least 20 percent.

Percentage increase in benefits	Number of States <sup>1</sup>		Percentage distribution of covered workers <sup>1</sup>	
	1977-78	1976-77	1977-78	1976-77
Total.....	52	52	100.0	100.0
Less than 5.....	2	1	11.8	5.2
5.0-9.9.....	5	6	9.0	16.3
10.0-14.9.....	14	9	38.4	18.3
15.0-19.9.....	17	15	23.5	33.7
20.0 or more.....	14	21	17.3	26.5

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

As in previous years, there were substantial regional differences in benefit growth from 1977 to 1978. Benefits increased at a rate well above the 13.7-percent national average (with black lung payments excluded) in two areas: Payments rose by 23 percent in the West North Central geographic division<sup>4</sup> and by 19 percent in the Rocky Mountain division.<sup>5</sup> At the low end was the 10-percent benefit rise registered by the Middle Atlantic division.<sup>6</sup>

<sup>4</sup> Iowa, Kansas, Minnesota, Missouri, North Dakota, Nebraska, and South Dakota.

<sup>5</sup> Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming.

<sup>6</sup> New Jersey, New York, and Pennsylvania.

A few geographic divisions exhibited fairly consistent patterns throughout the 1970's. Southern States were prevalent among those with above-average growth in benefits paid in most years. Improvements in statutory benefit levels, wage levels, and labor-force growth all played a part in this trend. Another pattern rather consistently evident was: In every year of the 1970's through 1978, the Middle Atlantic division has shown average or below-average increments in aggregate benefits paid. Examination of statutory maximum weekly benefits payable and of weekly wage levels of workers in these States does not reveal any noticeable lag from 1970 to 1978. The most evident reason for aggregate benefit patterns in New Jersey, New York, and Pennsylvania has been their much slower rate of labor-force growth compared with that of the rest of the Nation. Employment of nonsupervisory nonagricultural workers in these three States combined rose by less than 4 percent over the 1970-78 period. For the rest of the United States, the corresponding change was almost 26 percent.

## Employer Costs

The total cost of workers' compensation to employers in 1978 was estimated at \$17 billion, an increase of 20 percent from the figure for 1977. This cost excludes benefit costs funded by general revenues—that is, payments under the Federal black lung benefits program and supplemental benefits paid in a few States.<sup>7</sup>

The 1978 cost to employers consisted of:

- (1) \$12.2 billion in premiums paid to private carriers;
- (2) \$3.3 billion in premiums paid to State funds (for the Federal employees' program, these premiums are the sum of benefit payments and the costs of the administrative agency); and
- (3) \$1.5 billion as the cost of self-insurance—benefits paid by self-insurers, with the total increased by 5-10 percent to allow for administrative costs.

Covered payrolls rose in 1978 by 12 percent, only about three-fifths as much as the rise in costs. The 1978 ratio of costs to payroll (1.85 percent), therefore, rose markedly from 1.73 percent in 1977 (table 1). The increment of 0.12 percentage points over the previous year's figure was considerably less, however, than the 1976-77 increase of 0.25 points. The 1976-77 change was the largest in the series to date—both in absolute and in relative terms. The relationship between costs and payroll has undergone a rapid change since 1972, especially when contrasted with the period before 1966,

<sup>7</sup> Cost data will be reported by the Office of Research and Statistics as it becomes available for those black lung benefit costs, under the Black Lung Benefits Revenue Act of 1977, that are to be financed by employers.

as shown in table 11. For example, during the 20 years 1946-65, the cost to payroll rate ranged between 0.89 and 1.00. In at least 13 of those years, the annual change in the ratio was 0.03 percentage points or less.

Benefit payments as a percentage of payroll also rose slightly during 1978. With the exclusion of black lung benefits and the small amount of State benefits funded from general revenues, the \$8.7 billion medical and cash benefits amounted to 94 cents for every \$100 of covered payroll in 1978, compared with 93 cents per \$100 of payroll in 1977. Even though the 1978 ratio reflected the deceleration in the pace of legislative improvements in benefit formulas that has characterized the last few years, it was still the highest ratio since the series began.

For the third consecutive year, the increase in benefit payments was outpaced by rises in premium costs. For all insurers combined, the proportion of the premium dollar returned to insured workers in the form of cash payments and medical services declined from 54 percent in 1977 to 51 percent in 1978. Before the large drop over the 1976-78 period, the lowest loss ratio (the ratio of benefits to premiums written) was 57 percent in 1953. These recent decreases reflect the effect of a rise in insurance costs in anticipation of accelerating loss levels. Benefits can be expected to rise because of inflationary pressures on wages and the automatic rises in statutory benefit maximums that follow.

The experience for private carriers alone also showed a decline in the loss ratio—from 47 percent in 1977 to 43 percent in 1978. This ratio, compiled from data on benefits paid (direct losses) and premiums written, is comparable to estimates of the loss ratio for all types of insurance combined. Another relevant way of measuring the loss ratio is in terms of incurred losses and premiums earned—that is, by relating benefits for a given period to that part of premiums allocated to that period. The 1978 loss ratio computed in this way for private carrier business was 75 percent, down 3 percentage points from the previous year's level.

The large difference in the two ratios for private carriers reflects the recent high rates of wage and benefit growth. The loss ratio based on benefits paid tends to lag further and further behind as the tempo of wage and benefit growth accelerates. At the same time that the loss ratio based on benefits paid has declined 8-10 percentage points from its level before 1970, the ratio in terms of incurred losses has gone up 12-15 percentage points. Presumably these trends will reverse themselves when economic conditions become more stable. In fact, the loss ratio based on incurred losses

has already shown some small turnaround, having subsided from its historic high of 79 percent in 1976.

Loss ratios for State funds are available on a benefits-paid basis only. For 1978, the loss ratio for the 18 funds was 51 percent, a little below the 53 percent recorded for 1977. This modest decrease followed two consecutive substantial drops from the recent high of 76 percent in 1975. Before 1977, the State fund loss ratio had never been below 65 percent since 1950, the beginning date of this series. Like the comparable ratio for private carriers, the State fund loss ratio declined in 1976-78 primarily because of large increases in premiums written, despite concurrent substantial growth in benefits paid.

The loss ratio for private carriers and, to some extent, for State funds do not take into account the premium income returned to employers in the form of dividends. Available data indicate that, when dividends are related to total premium payments (for both dividend and nondividend paying companies), they generally average about 4-6 percent. Dividends as a percent of premiums earned averaged 6 percent in 1978 for all companies included in the 1979 Insurance Expense Exhibit of the National Council on Compensation Insurance.

## Summary

In 1978, the economy continued to exert a strong effect on workers' compensation programs: (1) The work force grew and was the main factor in whatever increase occurred in employment covered under the laws; (2) price and wage inflation continued, affecting the cost of medical care services under workers' compensation and pushing up the maximum weekly benefit amounts; and (3) premium costs to employers continued to rise by more than benefit payments, lowering the loss ratio in terms of both benefits paid and losses incurred.

After an intensive period of improvement in statutory coverage and benefit provisions at the beginning of the 1970's, the last three or four years through 1978 witnessed a change in direction of workers' compensation laws: Considerable attention is being given to refining previously made changes and to revising administrative and enforcement provisions. Some States are making changes in their operating procedures. All in all, the effects of statutory changes in 1977-78 were not immediately discernible—unlike the direct impact of the economic forces that clearly have influenced coverage, benefits paid, and costs.