WORKERS' COMPENSATION RESOURCES RESEARCH REPORT

Issue 6 Supplement **September 2013**

Workers' Compensation Costs for Employers: National and State Data

Summary of Issue 6 and Introduction to Supplement

By John F. Burton, Jr.

Issue 6 of the *Workers' Compensation Resources Research Report* was published in May 2013.

Part I. National Costs of Workers' Compensation: 1982 to 2012 provided data on the national costs of workers' compensation based on data published by the Bureau of Labor Statistics (BLS). The employers' costs of workers' compensation as a percent of payroll decreased in 2012 for workers in the private sector and for all non-federal employees. The employers' costs of workers' compensation as a percent of payroll increased in 2012 for workers in the state and local sector.

Part II. Regional, Industrial, and Other Variations in Workers' Compensation Costs in 2012 was also based on data published by the BLS. Employers' costs as a percent of payroll were presented for workers who varied by industry, occupation, establishment size, union-nonunion status, and geographic location within the US. The greatest geographical disaggregation was by Census Regions (which each contain multiple states).

Part III. State Data on the Employers' Costs of Workers' Compensation was a new feature of the WCRRR series on employers' costs and included data by state from the National Academy of Social Insurance (NASI Employer Costs) and from the Oregon Department of Consumer and Business Services (Oregon Premium Rates). Because the latest NASI Employer Costs data available in May 2012 were for 2010, the analysis in Part III was largely based on a comparison of NASI Employer Costs and Oregon Premium Rates for 2010.

Figure Q in Issue 6 of the WCRRR contained a comparison between the NASI Employer Costs and the Oregon Premium Rates. For three states (California, Maine, and Ohio) the state's measures of employers' costs relative to the national average (mean) were identical. However, for 48 jurisdictions, the measures diverged, including 25 states where the two measures of employers' costs of workers' compensation differed by 20 percent or more.

The Comments by Mike Manley that follow this Introduction are useful and helped me revise my presentation about how to compare the employers' costs of workers' compensation in different states. Here are two different ways to compare measure employers' costs.

- **Aggregate Current Employers' Costs of Workers' Compensation**. For employers who purchase workers' compensation insurance, this includes premiums paid in the year. For self-insuring employers, this includes benefits paid in the year plus the administrative expenses associated with paying those benefits.
    - This measure corresponds to the employers' costs data published by Federal agencies.
    - This measure corresponds to the employers' cost data used by most states.
    - This corresponds to the NASI measure of the employers' costs of workers' compensation.
- **Comparable Employers' Costs of Workers' Compensation. This measures the employers' costs of workers' compensation that a specified set of employers would pay in each state.**
    - This measure indicates the differences in costs a typical employer would pay in different states if the employer were to relocate.
    - This measure could be used to measure a state's competitive environment (subject to the qualifications presented on page 22 of WCRRR Issue 6.)
    - This corresponds to the Oregon Premium Rate Ranking Study.

Several caveats were offered about comparing employer costs across states at pages 21-22 of WCRRR Issue 6, which are largely based on the NASI report published in 2012 (Sengupta et al. 2012):.

The first caveat discussed by NASI is that the industry mix varies among states. There is a numerical example at page 21-22 of the WCRRR that explains why controlling for industry mix is necessary in order to make meaningful comparisons among states for public policy purposes or plant-location decisions. The Oregon Premium Rate Ranking Study controls for industry mix, but the NASI Employer Costs do not. The WCRRR at page 22 mentions another factor that complicates interstate comparisons, namely the relative importance of small firms in a state (because small firms tend to have higher injury rates and thus higher workers' compensation rates). Neither the NASI Employer Costs nor the Oregon Premium Rates control for this factor.

The second caveat offered by NASI is that employer costs in a state may give misleading information in a state that has recently changed its workers' compensation laws to increase or decrease benefits to the extent that current costs are based on benefits paid in the current year, since those benefits to some extent are compensating injuries that occurred under the old statutory scheme for benefits. This factor probably affects the NASI Employer Costs more than the Oregon Premium Rates since the NASI data include information on self-insuring employers, for which benefits paid in a year include injuries from previous years and for which costs are based in the benefits paid in the year.

The third caveat discussed by NASI is that "states with higher workers' compensation costs are, in general providing more generous benefits to injured workers" (Sengupta et al 2012: 35). Neither the NASI employers' costs nor the Oregon Premium Rates control for this factor.

The fourth caveat discussed by NASI (Sengupta et al. 2012:35) is that states that reduce workers' compensation costs by reducing benefits may find that over time wages increase to compensate workers for the reduced workforce protection.

Another caveat not mentioned in the WCRRR, but discussed by Mike Manley in his Comments, is that the relative importance of self-insuring employers varies among states, and since self-insuring employers tend to have lower workers' compensation costs, a state with a higher proportion of self-insuring employers will tend to have lower average workers' compensation rates than a state with a lower proportion of self-insuring employers, even though a typical employer that purchases workers' compensation insurance might find the premiums in the two states to be identical. This is another advantage of the Oregon Premium

Rates over the NASI Employer Cost data if the purpose is to compare the relative costs of workers' compensation in various states for comparable employer that are contemplating an interstate move.

Additional Developments Pertaining to Workers' Compensation Costs

Subsequent to the publication of WCRRR Issue 6 in May 2013, the National Academy of Social Insurance released *Workers' Compensation: Benefits, Coverage, and Costs 2011* (Sengupta, Baldwin, and Reno 2013), which contains data on employer costs by state in Table 12. The report can be downloaded without charge from: www.nasi.org

The Oregon Department of Consumer & Business Services published *Workers' Compensation Rate Ranking, CY 2012*, which contains the premium rates for 51 jurisdictions for 2012. **The full study can be downloaded without charge from:**
http://dcbs-reports.cbs.state.or.us/rpt/index.cfm?fuseaction=version_view&version_tk=188911&ProgID=FEARA011
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The New York Compensation Insurance Rating Board (NYCIRB) *published NYCIRB's Review of Oregon Rate Ranking Study* in April 2013 (Kimmel 2013). The NYCIRB disputed the methodology used by Oregon to conclude that New York workers' compensation rates were the fifth highest in the nation in 2012. The NYCRB objected to the use of 50 insurance classes that were relatively important in Oregon when the average premiums were calculated for New York (and for each of the other 50 states included in the Oregon study). The NYCIRB calculated that the average New York premium for all New York classes was $1.95 per $100 of payroll (or 31 percent less than the New York average rate in the Oregon study) and that the average New York premiums for the top 50 New York classes based on New York payroll was $1.29 per $100 of payroll (or 54 percent less than the New York average rate in the Oregon study).

The NYCRB has completed step one in a study to measure comparable employers' workers' compensation costs. Alas, the much more important step two is missing: what are the average rates in the other 50 jurisdictions if the rates in those states are calculated for all New York classes based on New York payroll for those classes, or what are the rates in the other 50 jurisdictions if the rates in those states are calculated for the top 50 New York classes based on New York payroll for those classes? Without the results from step two, the NYCIRB data are incommensurable.

Comments on Workers' Compensation Costs for Employers: National and State Data

By Mike Manley

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Thank you for the opportunity to comment on the WCRRR comparison of employers' cost data from different sources. In the comparison of the Oregon study and NASI data series, I think it would have been useful to start with caveats. There are many of these caveats, and how they apply to each of the comparison tools helps illuminate the strengths and weaknesses of each tool for a given purpose. For example, the first caveat, industry mix, is a weakness of the NASI data but is explicitly controlled for in the Oregon study design. The second caveat, employer size demographics, applies to both (indeed, this is a nut that is unlikely to ever be cracked). The next (historical nature of reporting, vs. prospective nature of premiums) is only a factor in the NASI data. The final one, benefit levels, is a consideration, but benefit comparisons can be made along many dimensions and have complexities and timing issues of their own, and it is hard to argue that these are overlooked as a difference in system features.

Given the many caveats, the various workers' compensation comparison tools may be better suited to some tasks than others. It may sometimes be possible to use a wrench to pound a nail or twist a screw, but people faced

with these tasks usually achieve better results when they use the hammer or screwdriver, depending on which task they are working on. In the case of interstate rate comparisons, the Oregon DCBS WC Rate Ranking Study is designed as a tool for rate comparisons for employers purchasing insurance. As such, it differs from NASI data and other data series that strive to report historical results as accurately as possible. As you have described, the Oregon study is designed to produce a comparable interstate rate series, by computing an "Index Rate" based on a standardized profile of risk classifications applied across all states. The remaining difference, to the greatest extent practicable, is the variation in rates due to differences in states' WC systems.

Thus, for purposes of interstate employer cost comparisons among insured employers, the Oregon study has some advantages over data series based on after-the-fact reporting of paid benefits and premiums.

- Comparing premium rates (which are set prospectively) allows the collection and publication of data within the reference year. For example, 2010 and 2012 Oregon study results were first published in October of each year studied, while the NASI data are published with a two-year lag.

- Use of a constant class mix factors out the hazard mix problem. This is a major reason why there is lower variation across states in the Oregon study, compared to the NASI data, which can be seen in Figure Q and Table 11 in WCRRR Issue 6. (The range from low to high values in 2010 was about half as much in the Oregon data, around 3:1 vs. around 6:1 for NASI).

- The Oregon series of studies is the only study being done periodically using a comparable hazard mix; thus it can be used for monitoring results over time.

- The study includes factors for insurer expenses and profits, administration costs, and certain special funds assessed with premium.

As the WCRRR article describes, the Oregon study excludes, for reasons of lack of data availability or comparability:

- some factors that affect individual employers' costs, such as discounts, experience mods, dividends, and deductibles

- self-insurance, which varies from state to state , both in terms of market share and regulatory approach

- assigned risk plans

- funds and administrative costs that are financed from mechanisms other than premiums

Despite the fact that the Oregon study methods are designed principally to describe relative premium rates, rather than their absolute magnitude, it is interesting to compare Oregon's findings with other WC historical data series. We found (Manley and Reinke 2007) that the Oregon study's benchmark of the median state's rate value trended closely with the BLS Employer Costs for Employee Compensation (ECEC) average measure for non-federal employees (Figure C of *WCRRR* Issue 6) for well over a decade. We believe that, for purposes of the Oregon study, the median is the preferred benchmark. Nevertheless, for comparison purposes, we have also computed an average (mean) rate figure for the Oregon 2010 rate data, weighted by state employment. These measures are compared below.

Workers' Compensation Costs and Premium Rates: Comparison of 2010 NASI, BLS, and Oregon DCBS Estimates

Year	Employer Costs per $100 of Wages (NASI)	Costs for All Non-Federal Employees per $100 of Payroll (BLS)	Median Rate per $100 of Payroll (Oregon DCBS)	Employment-Weighted Mean Rate per $100 of Payroll (Oregon DCBS)
2010	1.23	1.87	2.04	2.16

Note that 2010 figures are used above, because this is the most recent year for which all three sources are available. As seen in the table, the Oregon figures are somewhat higher than either of the other two measures. It is likely that one factor contributing to somewhat higher figures for the Oregon study is its exclusion of self-insurance, which is generally somewhat less costly for the set of employers that self-insure.

Some commentators have expressed concern that the Oregon study method, which normalizes hazard mix using a set of major risk classifications and associated payrolls that are of significance to the Oregon economy, is too Oregon-centric to be used as a benchmark. However, the major classes used in the study are all major classes in all jurisdictions, and there is no truly national data set of payroll by risk classification[i]. In other studies, including our in-house analyses using other payroll weights, the choice of payroll weights has been shown to be of little consequence to the distribution of relative rates among states. In other words, relative rate comparisons are most useful when calculated on a comparable-risk basis, but the precise mechanism for normalizing risk is not critical, as long as some broadly representative payroll distribution is used as the control.

ENDNOTES

[i] For some comparisons the National Council on Compensation Insurance (NCCI) uses a measure of payroll distribution called "Countrywide" that consists of data for up to 38 U.S. jurisdictions. There is no more comprehensive data set of premiums or payroll available at the level of individual risk classifications. Because several large states are not included in the NCCI Countrywide mix, and depending on the definitions used, the Countrywide totals represent approximately 60 percent or less of payroll and employment nationally.

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Manley, Mike, and Dotter, Jay. 2013. *Workers' Compensation Premium Rate Ranking, CY 2012*. Salem, Oregon: Oregon Department of Consumer and Business Services. A summary and full report are produced in each study cycle; the latest versions can be downloaded from sources indicated in text of this Supplement.

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