Our Workforce Is Rapidly Aging—Is This Bad News?

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And this is a global phenomenon. Both 60 Minutes and Bloomberg have reported, for example, on efforts by BMW to address the challenges of its aging production line workers. To ease the strain on workers’ lower extremities, BMW installed wood floors and began supplying specially designed work shoes. And for reading part numbers, the company increased the size of the characters and supplied workers with magnifying glasses.

The Bureau of Labor Statistics (BLS) is now reporting that injury rates of older workers have been falling more slowly than those of younger workers; they are now virtually equal. And the number of US workers over 55 is surging. In fact, the share of the workforce aged 65 and older has more than doubled in recent years and will continue to rise as boomers age.

How will the economy in general and workers compensation in particular cope?

The Distressing Demographics of the US Workplace

The number of workers 55 and older actually began to increase in the early 1990s; the BLS projects that between 2010 and 2020 the total will double to near 25 million. And a material portion of this increase will be workers in their 60s and 70s. How will the workers comp system cope?

In reality, the workers comp system should be able to handle this with ease. Indeed, the aging workforce reflects far greater challenges for the rest of the US economy. The unsettling truth lies in the details.

Relatively, more younger people—particularly younger men—aren’t even looking for work, much less working! To some extent this reflects greater college enrollment. But it also reflects the lack of skills and, according to some, the work ethic of some young men.

In his recent book Coming Apart, author Charles Murray has examined in detail the related sociological issues. His research suggests that the inability to pass background checks and drug tests is another factor underlying chronic unemployment among younger men.
Among middle-aged men, there has been a marked increase in reliance on Social Security Disability Insurance (SSDI) as an alternative to work. The leading diagnoses from 30 years ago—heart disease and cancer—are now far less prominent, having been superseded by musculoskeletal disorders and mental disorders, which are associated with workplace injuries. Also, the inability to work in a previous occupation appears to have become a major consideration in awarding eligibility.

The recent Great Recession has also played a role. Many of the middle-aged workers who lost their jobs are now taking early retirement because of the inability to find new employment.

These are some of the most notable structural shifts in the US labor market over the past 20 or so years. They reflect a growing weakness in the quality of the workforce relative to the economic needs and opportunities that exist today. It as an example of what economists call “selection bias”; in this case, the weakest players drop out of the system. This puts pressure on federal, state, and local budgets; it deprives the economy of potentially productive workers; and it weakens traditional social institutions. None of this is good news.

What Does This Aging Workforce Mean for Workers Compensation?

Contrary to the overall picture, recent research from NCCI indicates that the aging of the workforce does not appear to be bad news for workers compensation. This is an unexpected conclusion. Previous research findings indicated that the observed higher costs of older workers were offset by the higher frequency of younger workers. Now, however, recent BLS data indicates that the differences in workplace injury rates across age groups have largely disappeared.

The recent analysis reveals that severity—both medical and indemnity—has grown relatively faster for younger workers in the past two decades. This essentially offset the shrinking difference in injury rates mentioned above. The key driver was the increasing prominence among younger workers of the high-cost diagnoses that previously had been common in older workers—especially rotator cuff and knee injuries. Medical severity of younger workers was impacted primarily by the related increase in the number of medical treatments; indemnity severity of younger injured workers increased due to the longer duration of their recovery from these injuries.

A panelist at NCCI's 2012 Annual Issues Symposium offered an explanation—the increasingly sedentary lifestyle and lack of physical work demands for Americans of all ages. According to him, the health of the rotator cuff muscles and of knee cartilage is dependent on adequate blood flow. Blood flow requires movement, and sitting at a desk or in front of a TV limits blood flow. Again we face “good news is due to bad news”—the observed shrinking difference in the severity of workplace injuries appears to be due largely to the deterioration of the physical well-being of younger workers.

An aging workforce does not pose a significant challenge for workers compensation. But it is not all good news. Many of the weakest workers—both young and old—have dropped out of the workforce. Comparing older and younger workers, injury rates are similar. The prominence of serious injuries is similar; medical severities are similar; and the modest differences in indemnity severities are due to the higher wages of older workers, which are covered by higher premiums.

Perhaps we need to shift our concerns from older to younger workers. If there is little difference in their health status today, just imagine what condition these younger workers may be in 30 years from now.

By the way . . . that BMW production line that was outfitted to accommodate older workers? The retrofitting cost about $50,000. And it is now one of the most productive and profitable lines in the BMW system.

Harry Shuford, PhD, is an NCCI practice leader and chief economist with NCCI’s Actuarial & Economic Services Division. His research has addressed workers compensation-related issues in corporate finance and trends in loss costs, with particular focus on medical utilization and the underwriting cycle.
As the baby boomers age and also choose to retire later than earlier generations, there is a growing concern about the potentially adverse impact of this aging workforce on workers compensation experience.

Two recent studies posted on ncci.com suggest that these fears are largely unwarranted.

A 2011 NCCI study showed the rapidly shrinking gap between the historically lower injury rates of older workers and the higher rates observed for younger ones. An analysis of workers compensation claims data shows that claim severities grew faster for younger workers over this period, which offset the relative shifts in frequency.

After combining the offsetting patterns in frequency and severity trends and adjusting for the higher wages of older workers (a key factor in determining premium income), there are only minimal differences in medical and indemnity losses for injured workers ranging from their mid-30s to mid-60s, as shown in the accompanying exhibits.

This strongly suggests that an aging workforce does not pose a material exposure to adverse claims experience.

A 2012 NCCI study found further evidence of similarities between the 35-and-older-age cohorts, including the convergence of the leading injuries sustained by older and younger workers.

In particular, in the mid-1990s, rotator cuff and knee injuries were far more common in older workers; by the mid-2000s these high-cost injuries had also become common (i.e., in the top 10) for workers in their mid-to-late 30s.

The analysis also indicates that, for medical severity, both the level and trends in the average cost per treatment and the average number of treatments per claim for a comparable mix of injuries are virtually identical, particularly for the 35-and-older-age cohorts.

As the accompanying exhibits show, this is also true for indemnity severity—duration of temporary claims and average cost per day are also remarkably similar.

Both studies add to the growing evidence that an aging workforce will have a far less negative impact on workers compensation claim costs than might have been thought.
**Exhibit 3**

Average Number of Treatments per Claim After Controlling for Differences in Injury Mix
Lost-Time Claims With Temporary Payments Closed Within 24 Months of Date of Injury

**Exhibit 4**

Average Cost per Treatment After Controlling for Mix
Lost-Time Claims With Temporary Payments Closed Within 24 Months of Date of Injury

**Exhibit 5**

Average Duration for Temporary Payments After Controlling for Differences in Injury Mix
Lost-Time Claims With Temporary Payments Closed Within 24 Months of Date of Injury

**Exhibit 6**

Average Temporary Benefits Paid per Day After Controlling for Mix
Lost-Time Claims With Temporary Payments Closed Within 24 Months of Date of Injury

Source: NCCI