



# Wage-Adjusted Changes in Workers Compensation Indemnity Benefits 2000–2018

The workers compensation (WC) system has been in place for more than 100 years. Many reforms have occurred since its inception, including a number in the early 1990s when changes to the system were implemented to keep it balanced. Now we fast-forward to the 21st century and measure the period from 2000. We ask, “Have WC lost-time benefits kept up with wage growth?” This paper demonstrates that since 2000, indemnity benefits on a wage-adjusted basis have indeed kept pace with wage growth across all indemnity injury types<sup>1</sup> in most NCCI states.<sup>2</sup>

WC provides not only first-dollar medical benefits to workers injured on the job, but also indemnity benefits to replace lost wages and to otherwise compensate the worker for their injury.<sup>3</sup> This paper focuses on indemnity benefits.

Many WC indemnity benefits are tied to the injured worker’s average weekly wage (AWW) at the time of injury. Therefore, as the AWW increases over time, WC benefits for new injuries occurring in later years may also be expected to rise.<sup>4</sup>

In this paper, we build upon previous work<sup>5</sup> that displayed indemnity benefit indices by state and make additional refinements to ensure the indices appropriately filter out all wage-related changes.

## HOW DO INDEMNITY BENEFITS CHANGE WITH WAGE GROWTH?

Tying the injured worker’s indemnity benefits to wages provides income replacement for the employee’s lost work time. In addition, indexing the weekly maximums and minimums is a feature designed to prevent inflation from eroding the level of workers’ benefits.

Before discussing how indemnity benefits by state and by injury type have changed over time, we define two types of indices:<sup>6</sup>

<sup>1</sup> Losses are grouped for analysis by “Injury Type” according to Statistical Plan codes, and the four relevant categories for this study are Fatal, Permanent Total Disability, Permanent Partial Disability, and Temporary Total Disability.

<sup>2</sup> Source of indemnity benefit changes: Exhibit 3 of NCCI’s *Annual Statistical Bulletin (ASB)*. The *ASB* also contains benefit schedules by state in Exhibit 7. States in which NCCI provides ratemaking services include AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, TX, UT, VA, VT, and WV.

<sup>3</sup> Other compensation would include, for example, vocational rehabilitation and death benefits to survivors of fatally injured workers.

<sup>4</sup> Average weekly wage by state is available using the *State Insight* tool on [ncci.com](http://ncci.com).

<sup>5</sup> Barry Lipton and Jim Davis, *Social Security Disability Insurance and Workers Compensation Cost Shifting*, NCCI, 2017.

<sup>6</sup> There were two other types of changes used to derive the two discussed. We define “Ratemaking” changes as the benefit changes calculated and used by NCCI actuaries to adjust loss costs or rates and correspond to figures found in the filings or other technical publications. We also define “Worker-Realized” changes as ratemaking changes adjusted to remove certain annual inflationary adjustments in maximum and minimum weekly benefits—sometimes referred to as “automatics”—as well as other loss cost or rate changes that would be transparent to the worker. Examples include the establishment or termination of second injury funds and the

**Nominal Changes:** These include the natural changes (typically increases) in average wages in a state over time.

**Wage-Adjusted Benefit Changes (WABC):** These exclude the natural changes in average wages in a state over time<sup>7</sup> and account for the dampening impact of fixed-dollar benefits or maximum benefits.

A dampening of benefits happens, for example, if a state's maximum weekly benefit does not move in sync with the AWW. Consider that the maximum weekly benefit for Permanent Partial Disability (PPD) in Alabama has been fixed at \$220 since before 2000. This means that workers who are hitting that maximum are losing ground each year in terms of wage-adjusted benefits. A meaningful index of benefits must account for this.

In Alabama, maximum weekly Temporary Total Disability (TTD) and Permanent Total Disability (PTD) benefits are indexed to the state average weekly wage (SAWW), but are not subject to the \$220 cap. Thus, TTD and PTD benefits have risen with increases to the SAWW, while the \$220 cap on PPD benefits has not changed in about three decades.

In a situation like this, we can calculate the impact of the fixed cap by using a countywide distribution of workers and their wages,<sup>8</sup> indexed to the state's average injured workers' weekly wage.<sup>9</sup>

On a nominal basis, benefits by state and injury type have increased significantly since 2000, nearly doubling in many cases.

Consider Illinois, where weekly benefits are equal to two-thirds of the injured employee's pre-injury weekly wage. A worker injured in 2000 earning \$600/week would receive \$400/week in benefits. Meanwhile, if the same injury occurred in 2019 and the worker was earning \$1,000/week, the worker would receive \$667/week in benefits.

Below are two exhibits that display the cumulative impact<sup>10</sup> of nominal indemnity benefit changes from January 1, 2000, through 2018 for PPD and TTD.<sup>11</sup> These exhibits demonstrate that in almost all states, dollars of benefits have increased by 50% to 100%, driven largely by increases in wages.

---

need to include or exclude these benefits from loss costs or rates; these changes typically do not directly impact an injured worker's benefits.

<sup>7</sup> In this study, we have used the US Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW), for all private sector employment. Note that states typically use their own methodologies to annually calculate the State Average Weekly Wages used to determine maximum weekly benefits; in general, these state-calculated indices move in sync with the Bureau of Labor Statistics indices.

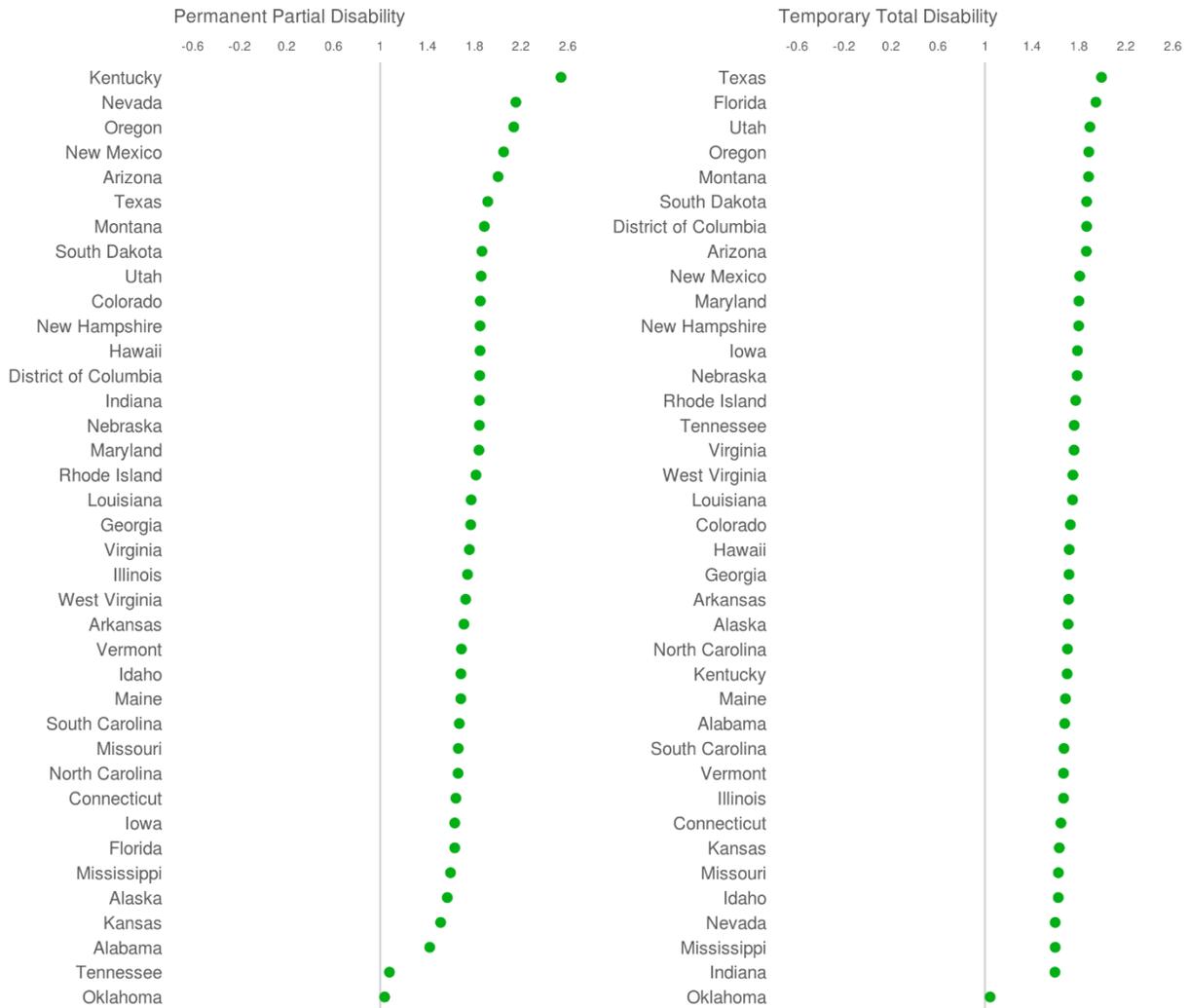
<sup>8</sup> Based on NCCI Detailed Claim Information (DCI) data.

<sup>9</sup> Forecasted using the QCEW noted earlier, adjusted to reflect injured workers, since the average wage for injured workers is typically lower than the average wage for all workers within an industry.

<sup>10</sup> NCCI calculated impacts for specific dates between 2000 and 2018, then multiplied the impacts for the cumulative index.

<sup>11</sup> Similar patterns were found for Fatal and PTD benefits.

Nominal Indemnity Benefit Change Indices by State, 2000–2018



Typically, when examining the level of WC benefits, analysts do not refer to nominal changes. Rather, the usual goal is to analyze the level of WC benefits over and above the underlying changes in wage levels.

As states continue to drive WC legislative and public policy decisions, the advantage of calculating WABC is that it enables one to truly measure what is being experienced by the injured worker after reflecting the impact of wage growth. WABC may include legislative changes impacting compensation, for example:

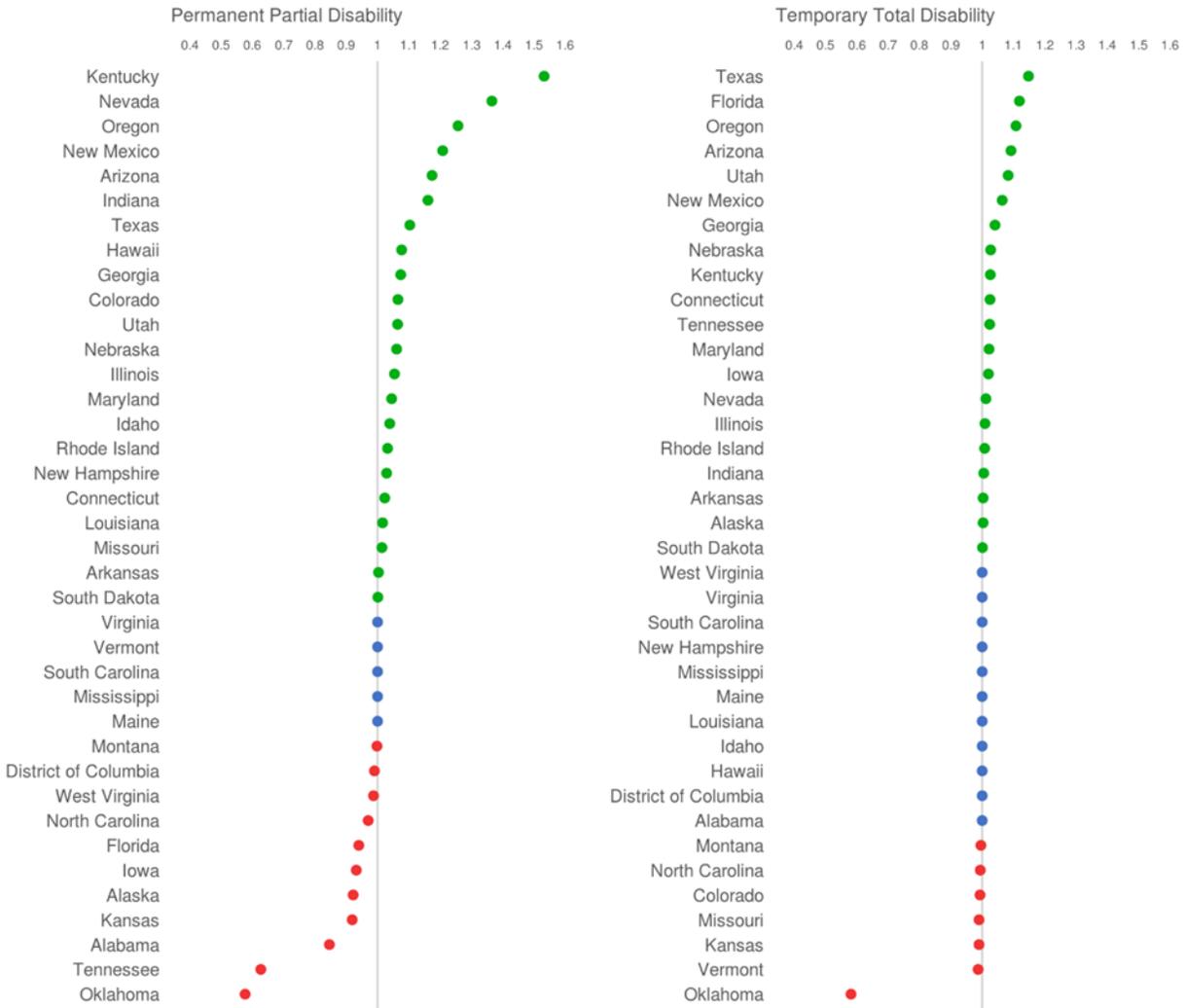
- Number of weeks of benefits awarded for certain injuries
- Percentage rates of compensation
- Maximum and minimum weekly benefits

In addition, there could be court decisions that impact compensation which, when quantifiable, would also be reflected in WABC. For example, in 2017, loss costs were increased by 5.6% in Kentucky as a result of *Parker v. Webster County Coal*, which invalidated certain conditions for the termination of benefits.

WABC 2000–2018

The two exhibits below display the cumulative impact of WABC from January 1, 2000, through 2018 for PPD and TTD.<sup>12</sup> These exhibits demonstrate that when WC benefits are adjusted for wage increases, workers have typically realized slightly increased benefits or no change.

Wage-Adjusted Indemnity Benefit Change Indices by State, 2000–2018



Note that various published indices of WC indemnity benefit costs compared to payroll show significant reductions in recent years. These indices are likely being driven by frequency decreases, which have accumulated to about -50% between 2000 and 2018.<sup>13</sup> Since there are fewer workplace injuries today, there are less benefits being paid per dollar of payroll. In contrast, the indices presented in this paper reflect average indemnity benefits based on the compensation structure in a state and are not impacted by changes in claim frequency.

<sup>12</sup> Similar patterns were found for Fatal and PTD benefits.

<sup>13</sup> Source: data underlying *NCCI State of the Workers Compensation Line 2019*, page 53, available on [ncci.com](http://ncci.com).

## CONCLUSION

WABC PPD changes are constant or positive in 71% of NCCI states for the period 2000–2018; for TTD, 82% of the changes are constant or positive. This means that indemnity benefits on a wage-adjusted basis have indeed kept pace with wage growth in most NCCI states.

The graphs above use the most meaningful set of indices from the perspective of the injured worker—that is, one that accounts for all wage growth, including the dampening impact of fixed-dollar benefits that do not naturally move with average wages.

## ACKNOWLEDGEMENTS

We thank John Deacon, Barry Lipton, and Aidan Williams for valuable contributions to this article.