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New Hope for Workers' Compensation Programs

The past two decades have witnessed a sea change in the way policy makers think about workers' compensation. Improvements in state workers' compensation programs, achieved in the mid-1970s, contributed to the runaway costs experienced in the 1980s. Rising costs to employers in turn have led to demands for reform and cost containment, threatening even to reduce the benefits for injured workers. Now a promising new approach to the problem, which would eliminate the need for contentious reform by enabling firms to reduce injuries and control their own costs, has been demonstrated by an Upjohn Institute study.

In 1972, the Report of the National Commission on State Workers' compensation Programs concluded that, "state workmen's compensation laws are in general neither adequate nor equitable." The report contained nineteen recommendations to improve benefit adequacy and equity, as well as coverage, for workers disable by their jobs. One explicit goal of the Commission was to remove the competitive element in workers' compensation costs among the states by standardizing benefits, thereby taking workers' compensation programs out of the competition for economic development. The Commission proposed that if the independent state programs did not comply with its "essential recommendations" by July 1, 1975, federal standards should be created to ensure their compliance.

The response was impressive; over the next several years most states did address the adequacy and equity of their workers' compensation programs, and by 1980 compliance had increased from 36 percent to 64 percent. In addition, while the compliance level was increasing, the variance among the states was diminishing. None of the states ever came into full compliance, however, and by the mid-1980s it was becoming clear that the recommendations of the National Commission had lost their impetus. Business interests were arguing forcefully that compliance with the recommendations had increased the cost of workers' compensation unduly.

Workers' compensation costs did increase throughout the period, with only a slight recession-related retreat in the early 1980s. Figure 1 (not available in this document) shows that total employer costs of workers' compensation as a percentage of payroll more than doubled from 1972 to 1992. During the same period, injuries involving lost workdays as measured under the separate OSHA-BLS reporting system increased from 3.3 to 3.9 per 100 full-time workers (up 18 percent). So the frequency of claims was increasing along with worker coverage and average benefit payments. The result was a ten-fold increase in overall workers' compensation costs from $5.8 billion in 1972 to an estimated $62 billion in 1992. In fact, by 1990 workers' compensation cost containment had become a more potent political issue than benefit adequacy and equity.

Anxious to avoid being branded a "bad business climate," states have scrambled to respond to employer demands that costs be reduced. Many have enacted reforms aimed at improving cost control in their workers' compensation programs, and Connecticut, Massachusetts, and florida have actually reduced benefits in the last two years as a means of controlling costs.

New Hope

While increased utilization, longer durations, higher benefit levels and exploding medical costs all played a role in the story of runaway workers' compensation costs, there is new hope for reducing costs and resolving conflicts between employers and workers without political confrontation. Recent research findings from the Upjohn Institute and other sources indicate that employers can effectively manage these costs themselves, and do not need to resort to legislative benefit reductions or other draconian measures to secure workers' compensation cost relief.

A four-year collaborative research project of the Upjohn Institute with Michigan State University and the Michigan Department of Labor was designed in 1989 to provide empirical evidence to substantiate the impacts of employer policies and practices on the prevention and management of workplace disability. It studied a stratified, random sample of 220 Michigan establishments with more than 100 employees from seven different industries who responded to a mail survey in the first half of 1991.

Two main sets of policy and practice interventions were evaluated in the study: (1) safety intervention, the attempt to prevent accidents from happening at all (measured as Safety Diligence, Ergonomic Solutions, and Safety Training); and (2) disability management, strategies to minimize the disability consequences of a given injury or disease arising from the workplace (measured as Proactive Return-to-Work Program and Disability Case Monitoring).

These interventions and the general management environment of the firm (measured as People Oriented Culture and Active Safety Leadership) are represented by variables which rate firm performance relative to other firms in the sample. Their marginal impact is estimated by correlating these variables with firm performance on outcome variables, including the number of injuries, the incidence of workers' compensation claims, and overall lost workday performance.

As shown in Figure 2 (not available in this document), on the summary measure of total lost workdays per 100 employees, a 10 percent better self-rating on Safety Diligence translates into 17 percent fewer lost workdays across the firms in the sample. A 10 percent better self-rating on Proactive Return-to-Work Programs translates into 7 percent fewer lost workdays. Thus, the twin strategies of trying to prevent accidents in the first place (disability prevention), and working to ameliorate their disability effects after an accident (disability management), are shown to be highly productive in reducing workplace disability in establishments that have implemented them rigorously.

Site visits to a subsample of 32 of the establishments in the larger random sample survey extended these quantitative findings. Comparison of high- and low-disability firms, matched for industry and size, confirms that the low-disability group more frequently and more effectively engages in the disability prevention and management policies and practices under study. Table 1 shows that they have substantially higher achievement on Proactive Return-to-Work Programs, Wellness Orientation, and People Oriented Culture. They also achieve significantly better performance on Safety Diligence and Ergonomic solutions. Little difference was observed on Disability Case Monitoring. Illustrating the payoffs to these practices, Table 1 shows the very large differences in the performance of the high- and low-disability firms. For example, the high-disability firms had over three times as many wage-loss claims and over twelve times as many lost workdays per 100 employees. Further, workers' compensation benefit payments per worker averaged $233 annually in the low-disability firms versus $839 in the high-disability firms, a difference of over $600 per year.

Table 1. High- and Low-Disability Firm Comparisons
Means of site visit firms (n=32)

Performance	**High-disability firms**	**Low-disability firms**
Recordables/100 employees	27	17
Lost work day cases/100 employees	10	2
Lost work days/case	29	12
Wage loss claims/100 employees	7	2
Lost work days/100 employees	307	24
Workers' compensation	$839	$233
Policies and Practices		
People oriented culture	3.25	3.80
Active safety leadership	3.93	4.15
Safety diligence	3.80	4.18
Disability case monitoring	4.31	4.40
Proactive return-to-work program	3.41	4.07
Wellness orientation	2.76	3.48
Ergonomic solutions	2.97	3.43
Safety training	3.99	4.20

Policy Implications

These research results demonstrate that disability *can* be prevented and managed; they suggest that those who do it well can expect to be rewarded with lower disability costs, more satisfied workers, and, ultimately, higher productivity.

From a public policy perspective, the implications are indirect. If cost improvements can be achieved without reducing benefits for legitimately disabled workers, then perhaps information dissemination and training programs in disability prevention and management "methods" would be more appropriate than aggressive reform. The workers' compensation program in Oregon was overhauled in 1990 to emphasize disability prevention, with joint labor-management safety committees, stiff fines for OSHA safety violations, and a pervasive public program of voluntary consultation by safety and prevention experts at individual workplaces. The number of disability claims declined by 20 percent and fatalities by 16 percent between 1989 and 1992, and employers in Oregon have realized more than a 40 percent reduction in workers' compensation rates since the reforms, despite significant benefit increases.

The policy implications for employers are very direct; employers should endeavor to take control of and manage their own situation. It is reasonable to expect that a typical employer could reduce disability and workers' compensation costs by 25 percent or more with these private policies and practices. Recent articles in *Nation's Business* and *Fortune* confirm this by reporting the experiences of firms that have "taken back the plant" from runaway workers' compensation and disability costs through more attention to prevention activities, better case management techniques, and improved labor-management relations. As *Fortune* puts it, "Workers' Comp is a manageable expense." The Upjohn Institute study provides further evidence that private methods of disability prevention and management, supported by a people oriented culture, can produce a "win-win" solution to the workers' compensation cost crisis.

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Suggested Readings

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