Measuring the Adequacy and Equity of Montana’s Wage Loss Benefits

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Helena, Montana

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For Employment Relations Department
Policy Objectives

• Adequacy -- Level of benefits
  – How much of workers’ lost wages are replaced by benefits?

• Equity – Distribution of benefits across workers
  – Horizontal equity—similarly disabled workers get similar benefits
  – Vertical equity—more seriously disabled workers get higher benefits

• Cost—employers and workers are concerned with impact of the cost of workers’ compensation on profits, jobs, and wage levels.
Policy Objectives

- Adequacy and equity are usually treated in a vacuum
  - Level of benefits is known
  but
  - Level of losses is unknown
  - Distribution of losses across workers is unknown
  So,
  - Adequacy of wage loss replacement is unknown
  - Equity across differently affected workers is unknown

ERD study fills in the missing pieces and allows LMAC, and ultimately the Legislature to make informed decisions
Estimating Wage Loss

• Main challenge—we do not observe the injured workers wages if they had not been injured—need to estimate future wages

• Wages at-injury are a poor proxy for future wage path
  – Age
  – Unemployment
  – School-family-children
  – Part-time to full-time
Matching Injured Workers to “Controls”

• Identify two groups of workers
  – Disabling injuries involving permanent impairments
  – Medical-only claims—generally minor injuries with little expected long-term impact on earnings

• Medical-only claimants are pool of potential matched controls. We use their wages as a proxy for injured worker wages, in the absence of an injury
Matching Injured Workers to “Controls”

- Matching Criteria
  - Gender
  - Age
  - Wage, 4 quarters prior to injury quarter
  - Indicator for <4 qtrs prior to injury
  - Employer size
  - Tenure
  - Occupation (class code)
PD Claims Earnings Relative to Controls

-10  -7  -4  -1   2   5   8   11  14  17  20
Proportional Wage Loss, Replacement Rate

Control
Injured

3 year post injury earnings

wages
Benefits

$0
$20,000
$40,000
$60,000
$80,000
$100,000
$120,000

Uncompensated Benefits

Wage loss
Measures

• Wage Loss
  Control Earnings – Injured Worker Earnings

• Proportional wage loss
  \( \frac{\text{Wage Loss}}{\text{Control Earnings}} \)

• Replacement Rate
  \( \frac{\text{Benefits}}{\text{Wage Loss}} \)
Important dimensions

• Impairment Rating

• Impairment Only vs PPD

• At-injury wage
  Determines both wage loss and compensation
Quarterly Wages of Injured workers as % of controls

Quarter relative to injury

Quarter relative to injury

1 to 3

4 to 6

7 to 10

11+
Wages Relative to Controls: Impairment-only vs. PPD

% of control wages

Quarter relative to injury

PPD

Impairment
Wage loss by wage
Basic Goals

• Horizontal Equity—workers with similar wage loss get similar compensation
• Vertical Equity—workers with higher wage loss get higher compensation

Replacement rates similar across all workers

System is Efficient--controls costs for employers, avoids delay in delivery benefits to workers, offers correct incentives to all parties
LMAC Proposal

• Determine PPD – worker eligible for PPD if at-injury employer unable to offer return to work
• Weekly benefit rate capped at 75% of State average weekly wage
• PPD benefit duration based on 2x Impairment %
Main Problems

• High wage workers already receive “adequate” replacement rates
  – Raising weekly benefit maximum effects only these workers

• Low wage workers have low replacement rates—nothing done for them

• Impairment only and PPD benefit rates not well modeled using only impairment rate
Alternatives

• Alternative proposal
• Discussion of additional alternatives
Proposal-2

• Pay both Impairment Only and PPD
  – Base + Impairment

  – Impairment
    • 20 weeks + .33 * Impairment * 375 weeks

  – PPD
    • (10% + Impairment) * 375 weeks
Proposal-2

• Weekly Benefit Rate
  – 50% of worker’s weekly wage at injury
  – Minimum $175
  – Maximum $317
Proposal - 2

- Greatly improves equality of replacement rates across workers for Impairment-only
- Does at least as well on equity across workers for PPD benefits
- Is more efficient to deliver
  - Reducing delays
  - Reducing litigation
  - Quicker return-to-work
  - Stronger incentives for employers
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<th>Low</th>
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<tr>
<td><strong>Current IMP</strong></td>
<td>55.8%</td>
<td>61.3%</td>
<td>373.0%</td>
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<td><strong>Current PPD</strong></td>
<td>88.3%</td>
<td>59.6%</td>
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<td><strong>Proposed IMP</strong></td>
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Other Issues

• Retain the work restrictions & education factors for PPD

• Drop age adjustment—opposite direction

• Consider the level of benefits