

# Measuring the Adequacy and Equity of Montana's Wage Loss Benefits

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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

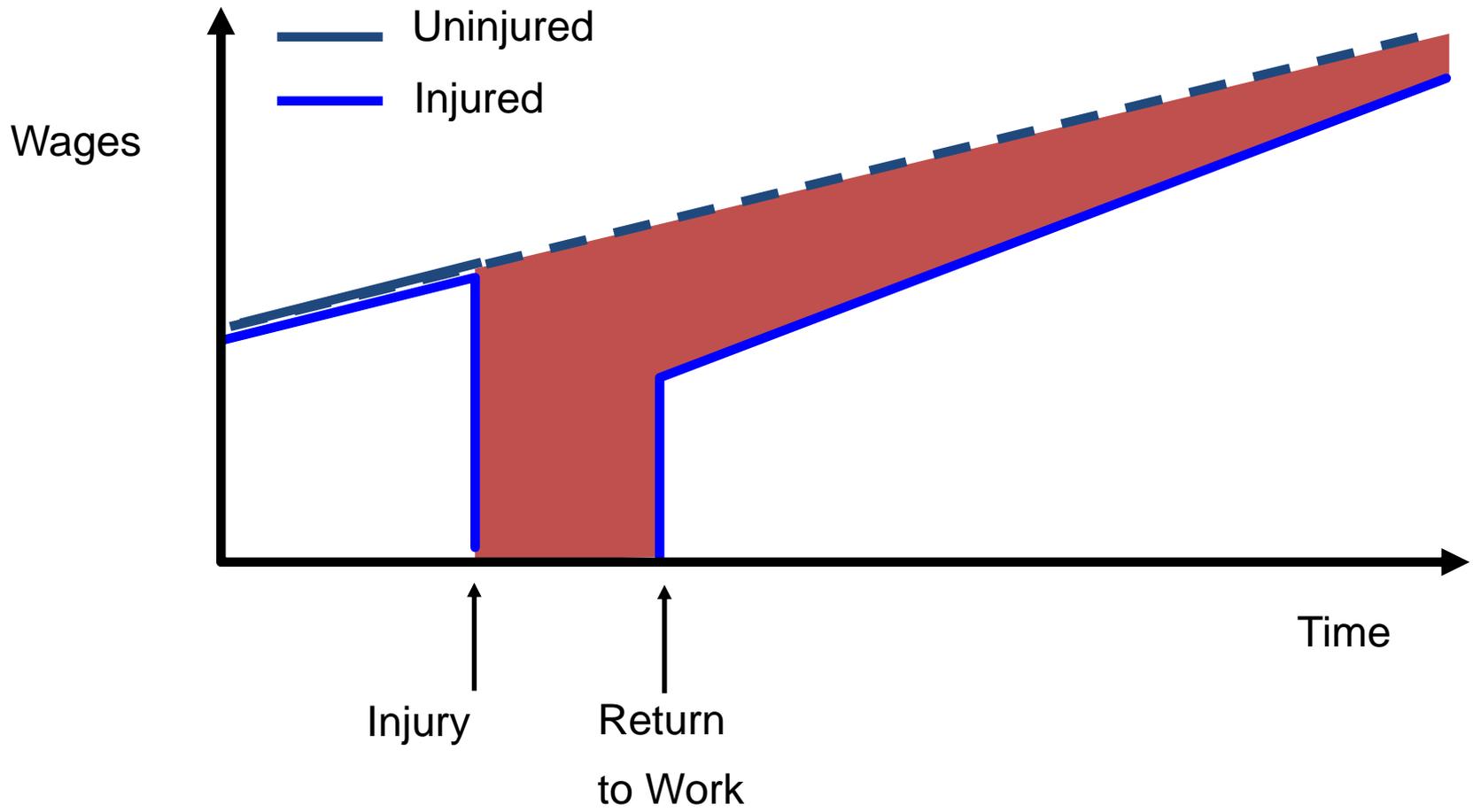
- Adequacy and equity are usually treated in a vacuum
  - Level of benefits is knownbut
  - Level of losses is unknown
  - Distribution of losses across workers is unknownSo,
  - Adequacy of wage loss replacement is unknown
  - Equity across differently affected workers is unknown

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

# Estimating Wage Loss



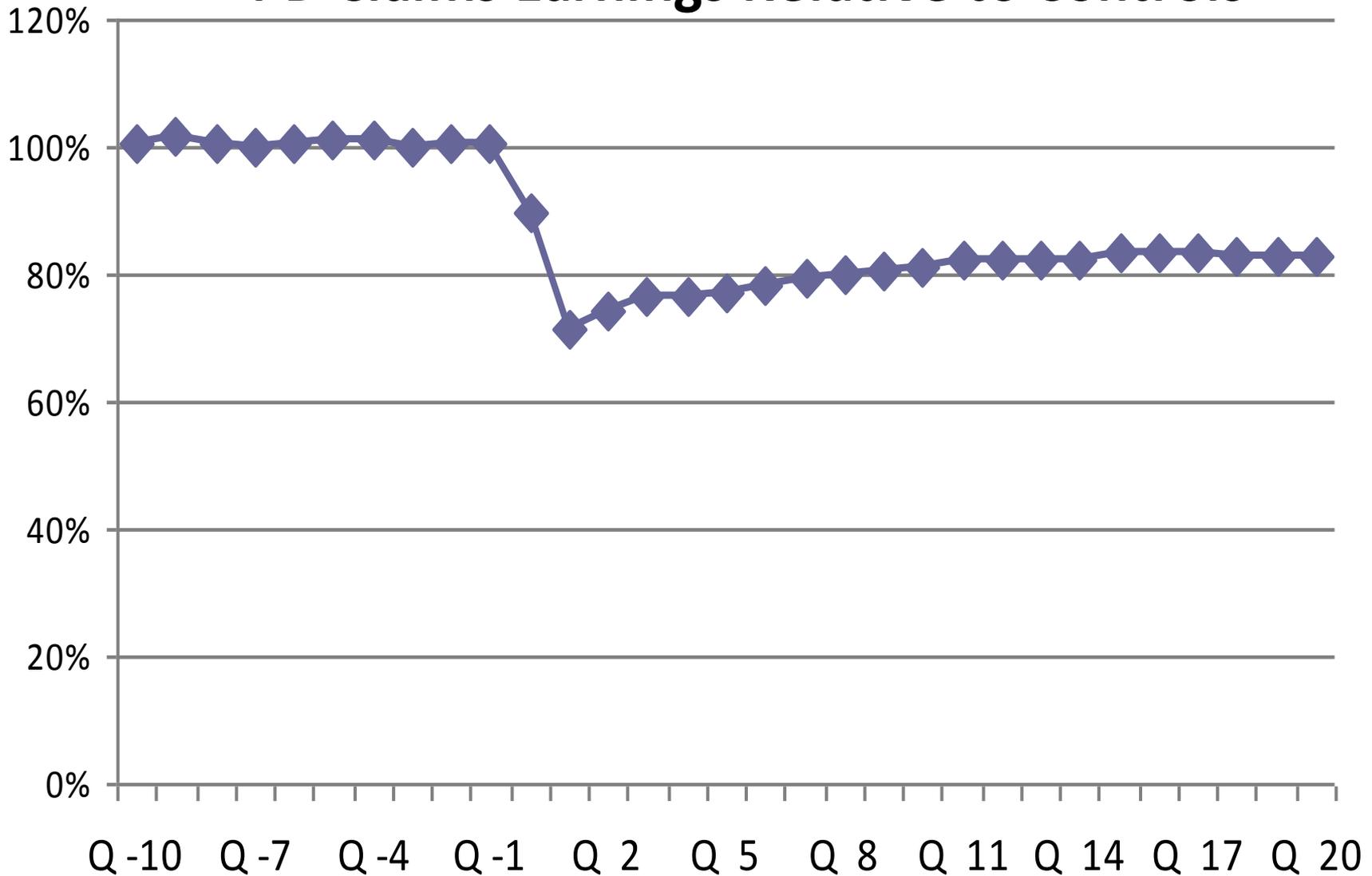
# Matching Injured Workers to “Controls”

- 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

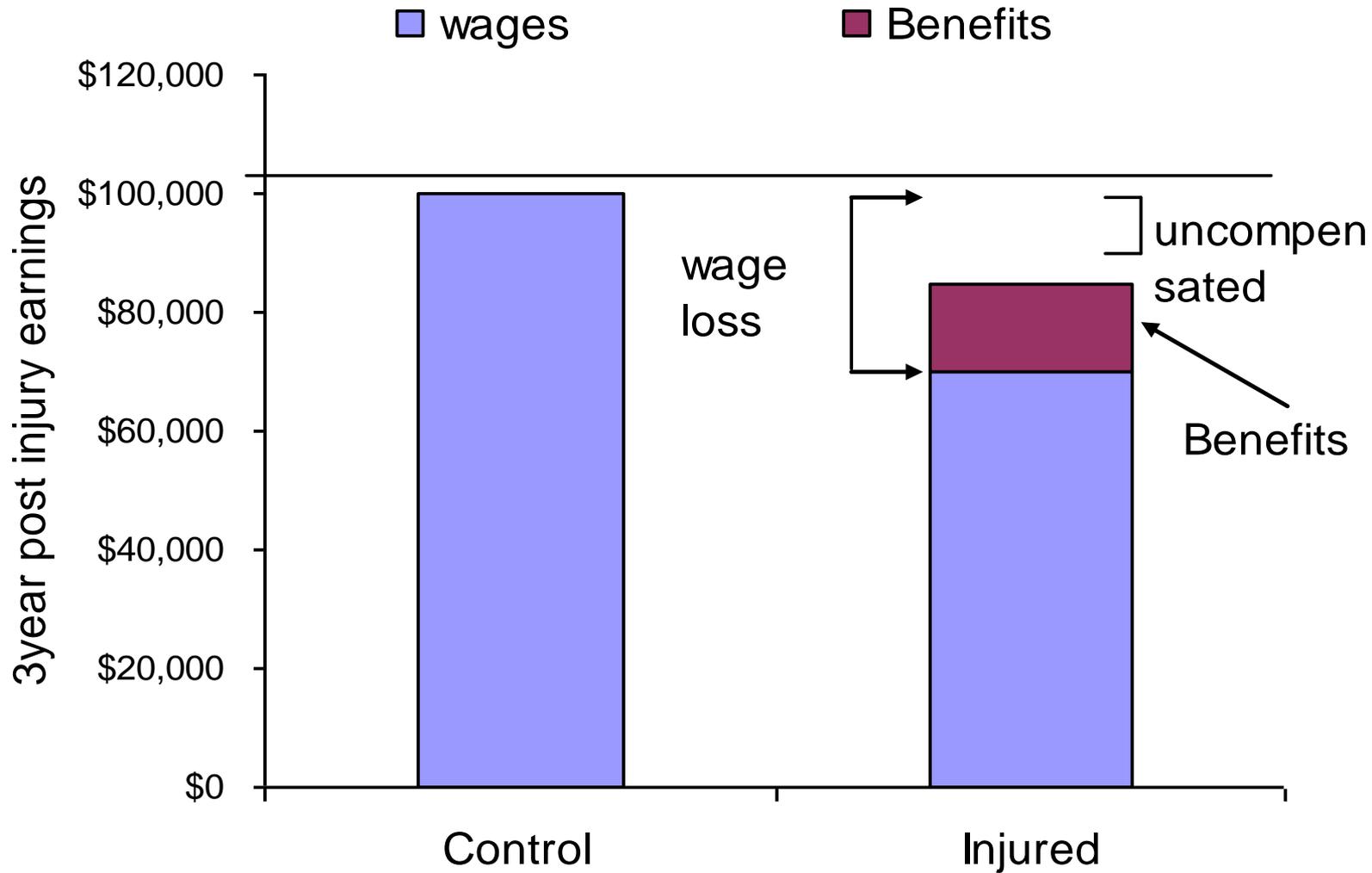
# Matching Injured Workers to “Controls”

- 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



# Proportional Wage Loss, Replacement Rate



# Measures

- Wage Loss

Control Earnings – Injured Worker Earnings

- Proportional wage loss

$(\text{Wage Loss}) / (\text{Control Earnings})$

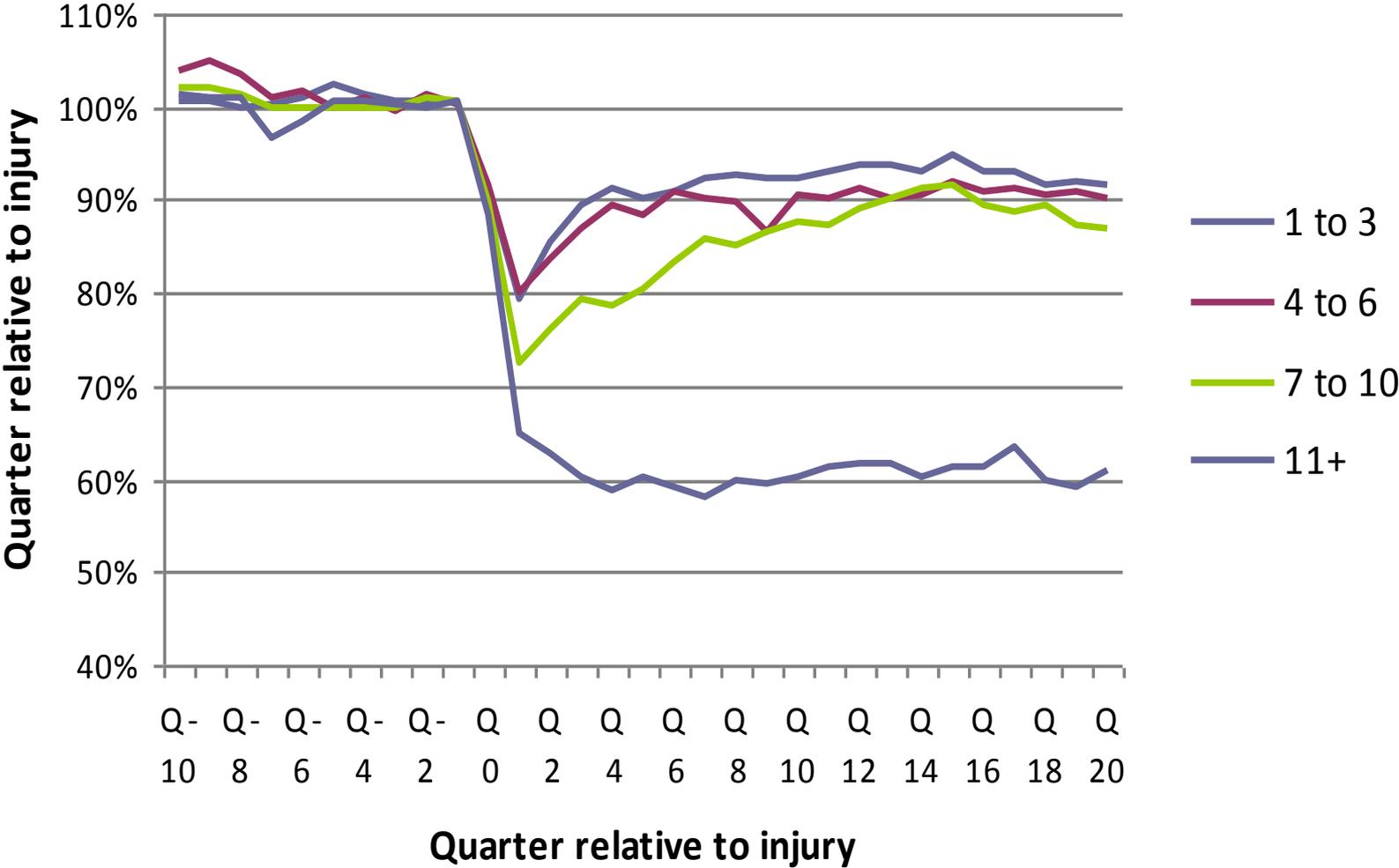
- Replacement Rate

$(\text{Benefits}) / (\text{Wage Loss})$

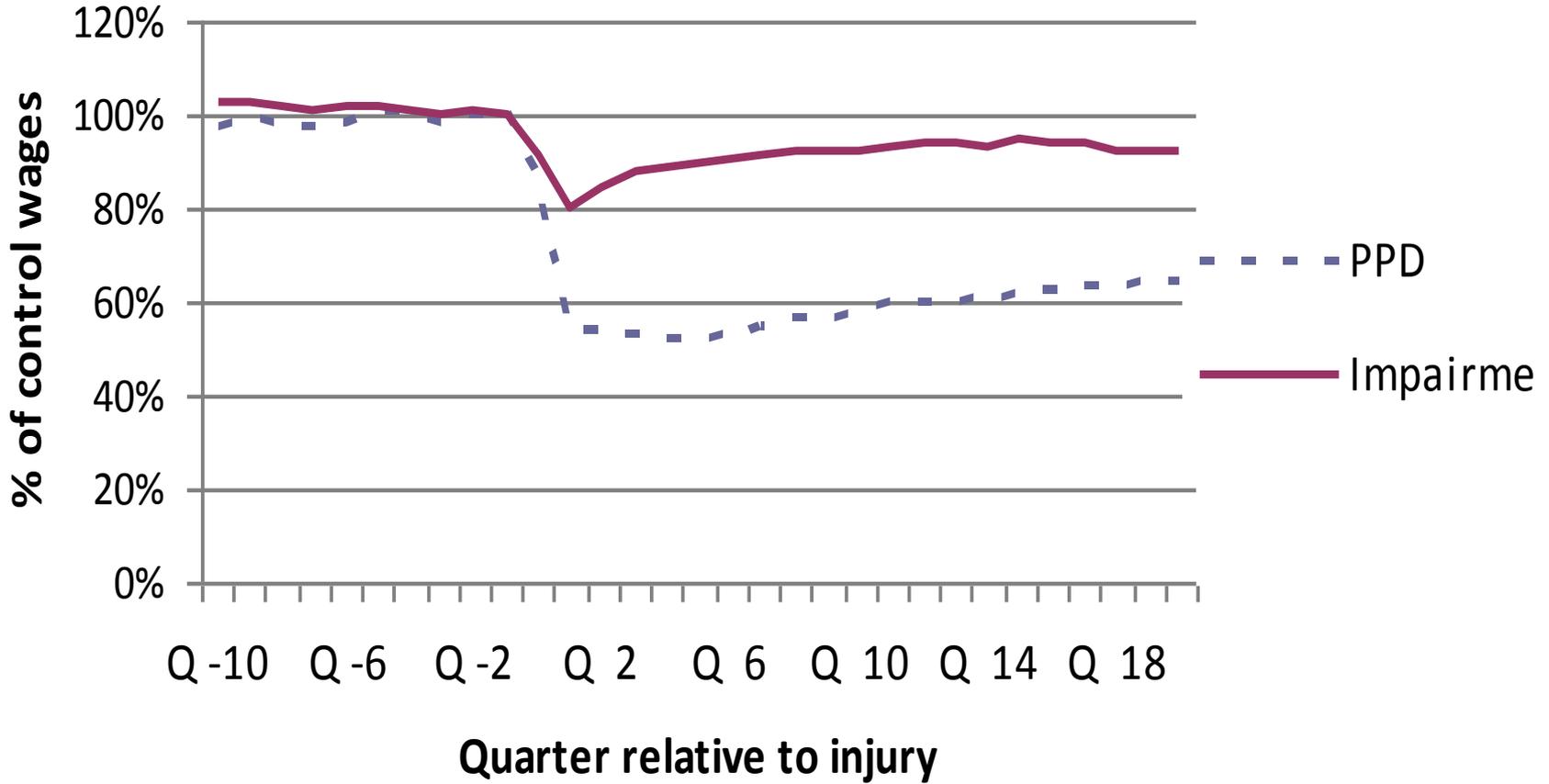
# Important dimensions

- Impairment Rating
- Impairment Only vs PPD
- At-injury wage
  - Determines both wage loss and compensation

# Quarterly Wages of Injured workers as % of controls



# Wages Relative to Controls: Impairment-only vs. PPD



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

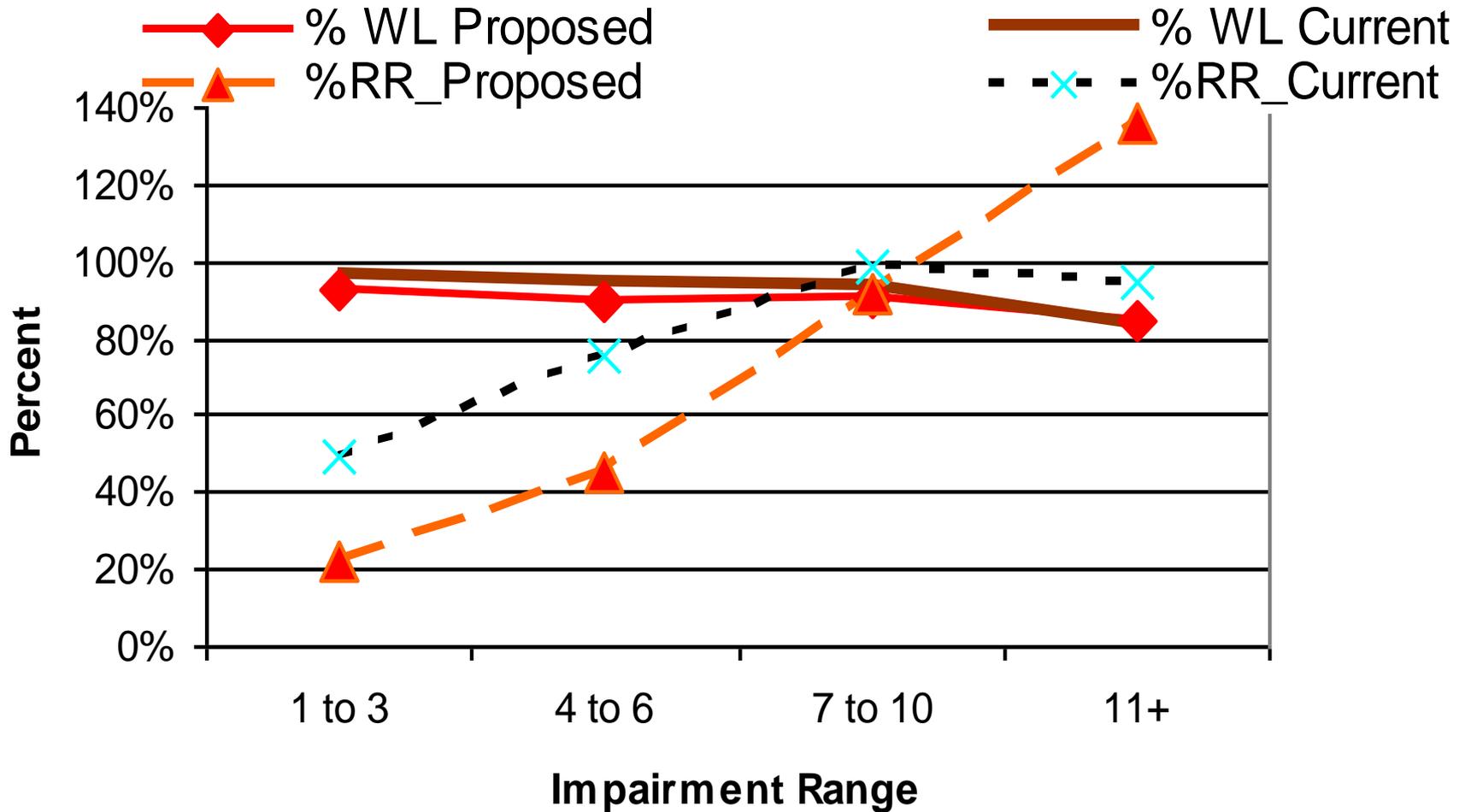
Replacement rates similar across all workers

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 %

## Impairment Only--Current and Proposed Wage Loss & Replacement Rates



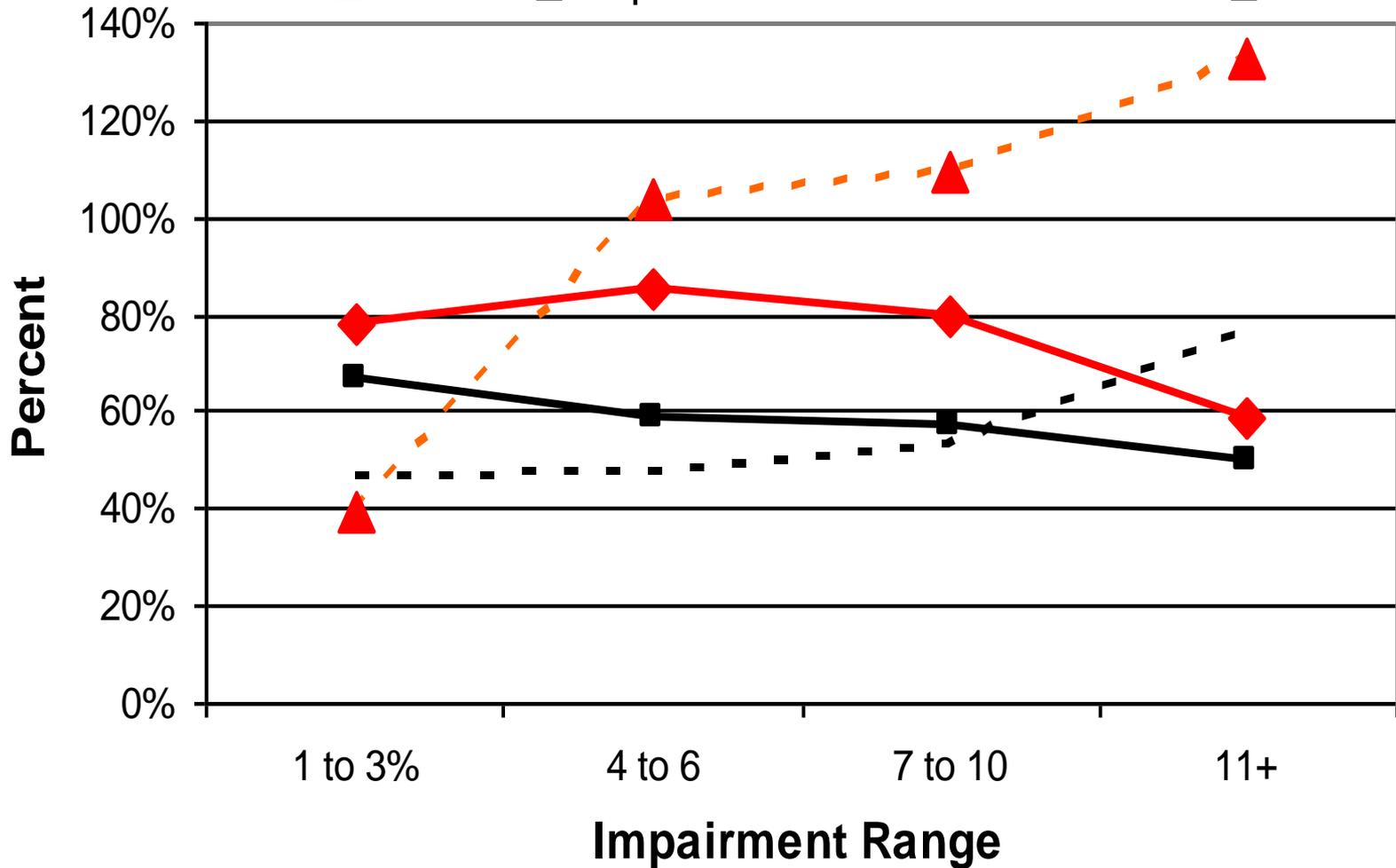
# PPD Claims: Wage Loss & Replacement Rates

—◆— % WL Proposed

—■— % WL Current

- - ▲ - - %RR\_Proposed

- - - - %RR\_Current



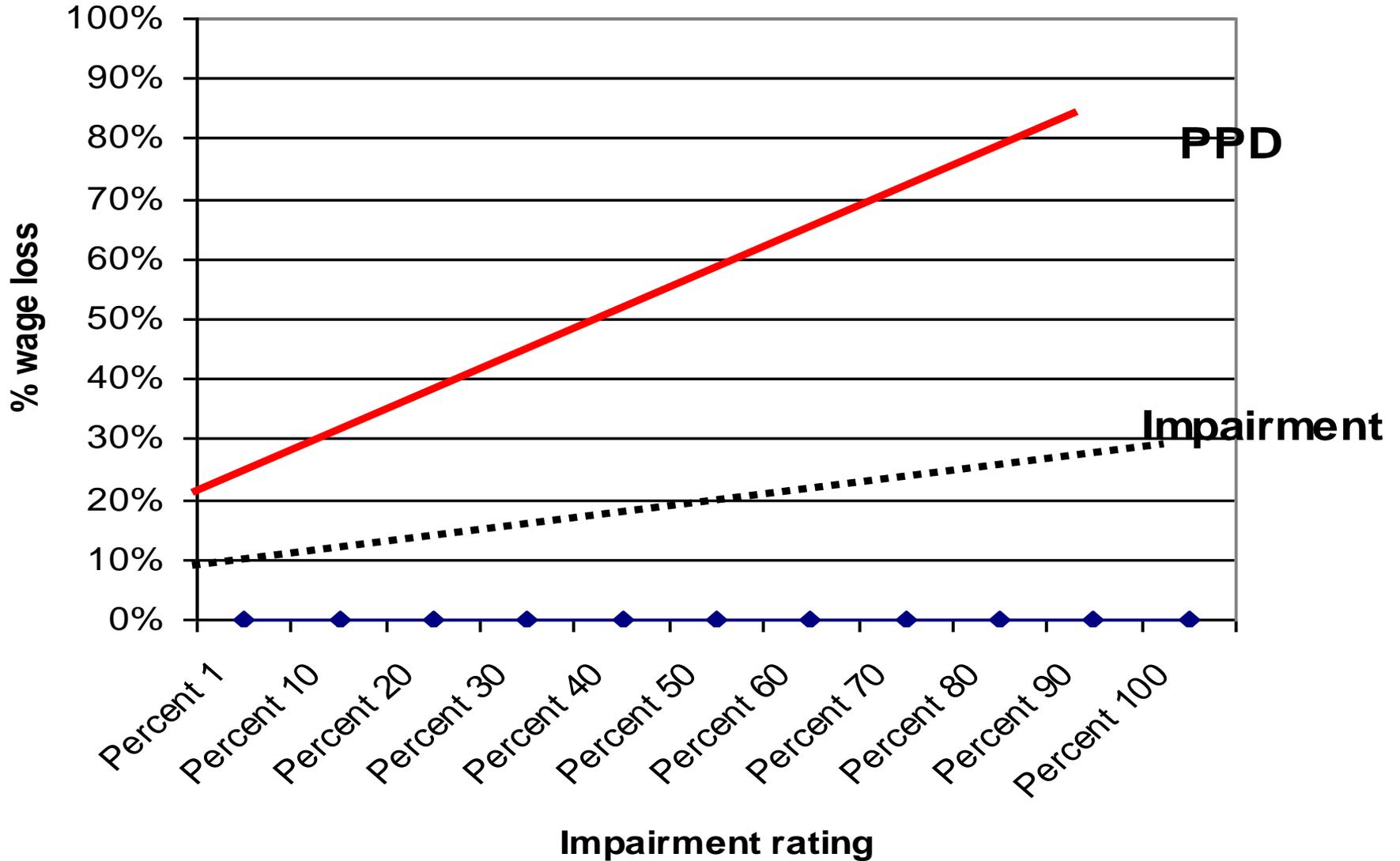
# Main Problems

- 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

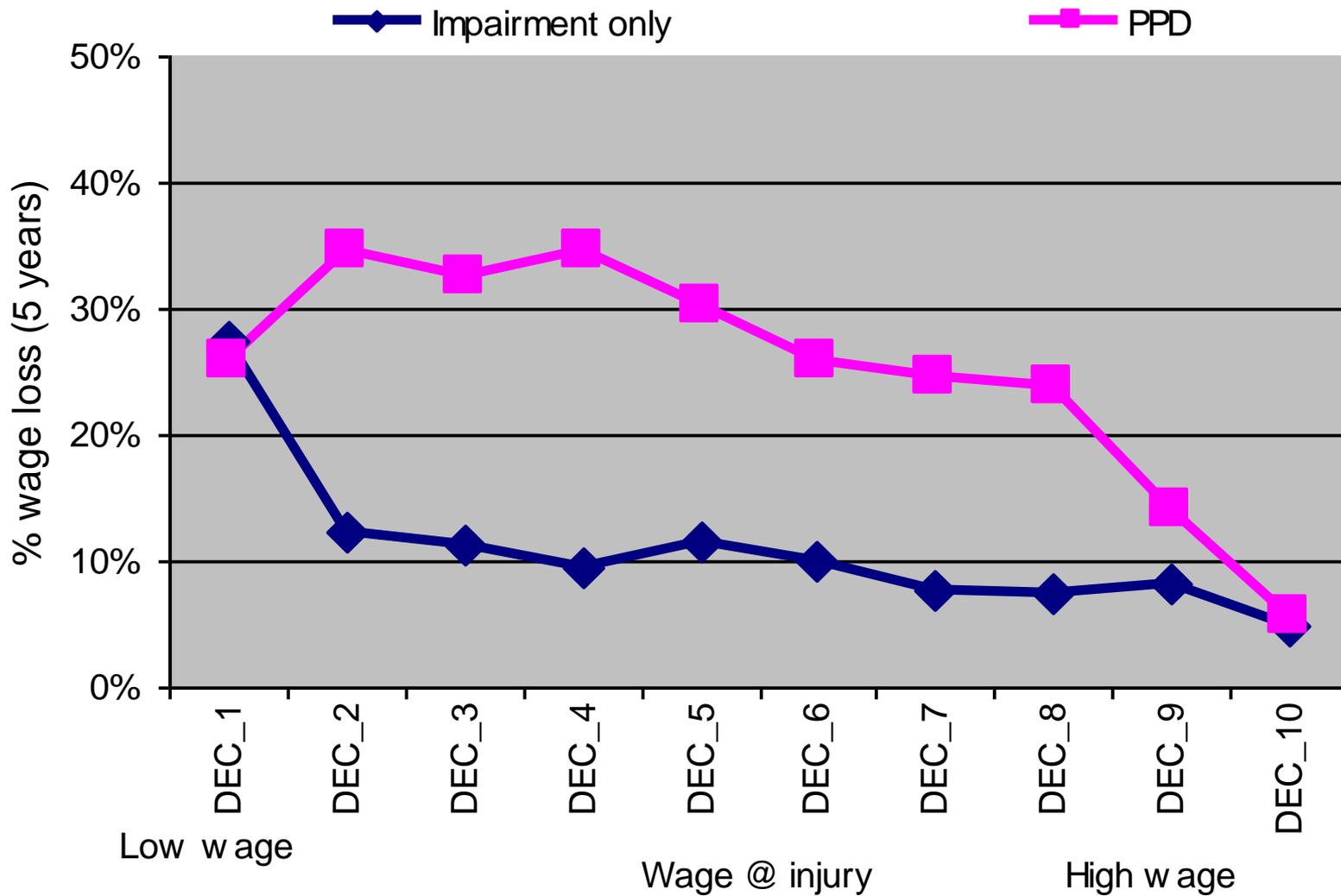
# Percent wage loss by impairment



# Proposal-2

- Pay both Impairment Only and PPD
  - Base + Impairment
  - Impairment
    - 20 weeks + .33 \* Impairment\*375 weeks
  - PPD
    - (10% + Impairment) \* 375 weeks

Percent Wage loss by Decile of wage at injury



# 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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Replacement Rates by Weekly Wage Level at Injury

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	Low	Med	High
Current IMP	55.8%	61.3%	373.0%
Current PPD	88.3%	59.6%	46.2%
<b>Proposed IMP</b>	<b>53.4%</b>	<b>61.7%</b>	<b>66.4%</b>
<b>Proposed PPD</b>	<b>63.6%</b>	<b>56.6%</b>	<b>107.5%</b>

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## Replacement Rates by Impairment Rating

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	1% to 3%	4% to 6%	7% to 10%	11+%
Current IMP	47.6%	71.0%	89.7%	86.8%
Current PPD	62.7%	53.4%	60.4%	73.8%
<b>Proposed IMP</b>	<b>61.9%</b>	<b>51.8%</b>	<b>71.8%</b>	<b>65.4%</b>
<b>Proposed PPD</b>	<b>47.7%</b>	<b>87.4%</b>	<b>76.8%</b>	<b>74.4%</b>

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## Current--Impairment-only

## Proposed-- Impairment-only

Impairment %	Low wage	Medium wage	High wage	Low wage	Medium wage	High wage
1% to 3%	Red	Pink	Black	White	White	White
4% to 6%	Pink	White	Black	White	White	White
7% to 10%	White	White	Black	Yellow	White	Green
11+%	Green	Yellow	Yellow	White	Yellow	White

## Current--PPD

Impairment %	Low wage	Medium wage	High wage
1% to 3%	Yellow	White	White
4% to 6%	White	White	Pink
7% to 10%	White	White	White
11+%	Yellow	White	White

## Proposed--PPD

Impairment %	Low wage	Medium wage	High wage
1% to 3%	White	Pink	White
4% to 6%	White	White	Black
7% to 10%	White	White	Yellow
11+%	White	White	Yellow

# Other Issues

- Retain the work restrictions & education factors for PPD
- Drop age adjustment—opposite direction
- Consider the level of benefits