

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

Study Approach and Expectations
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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.

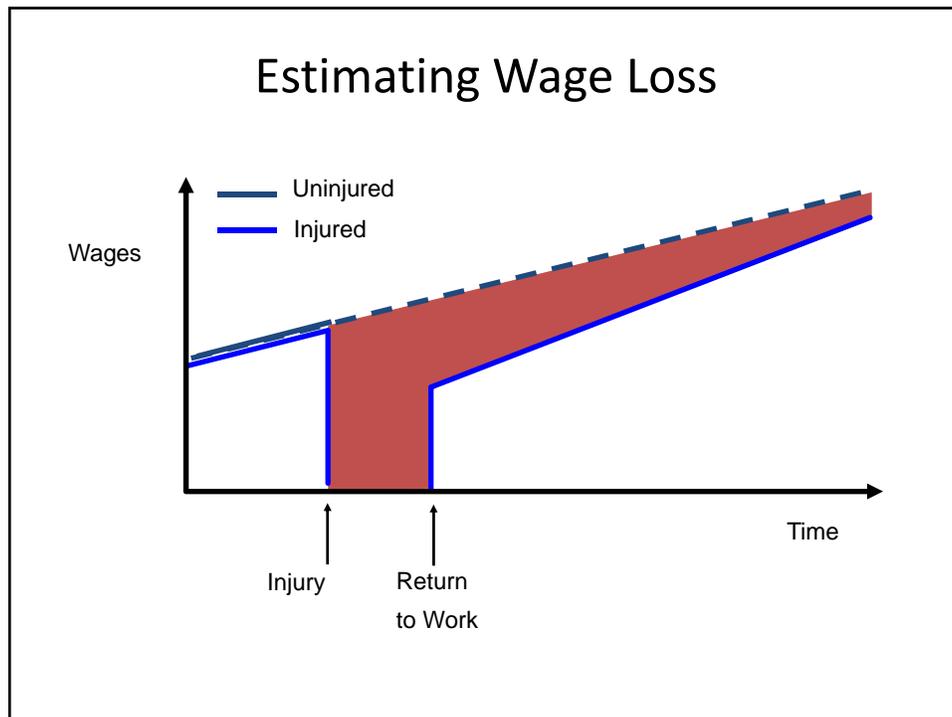
Policy Objectives

- 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 will fill in the missing pieces and allow LMAC, EAIC, 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



Matching Injured Workers to “Controls”

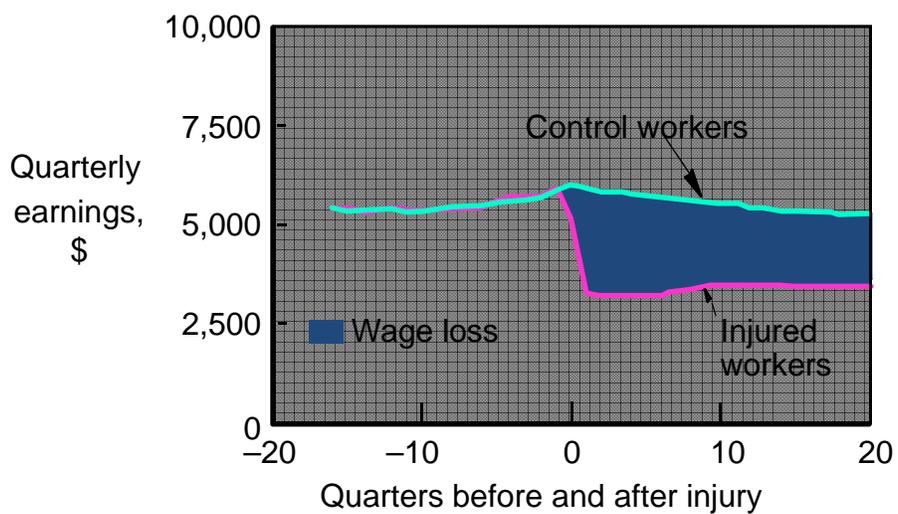
- Identify two groups of workers
 - Disabling injuries including permanent impairments
 - Medical-only claims—generally minor injuries with little expected long-term impact on earnings

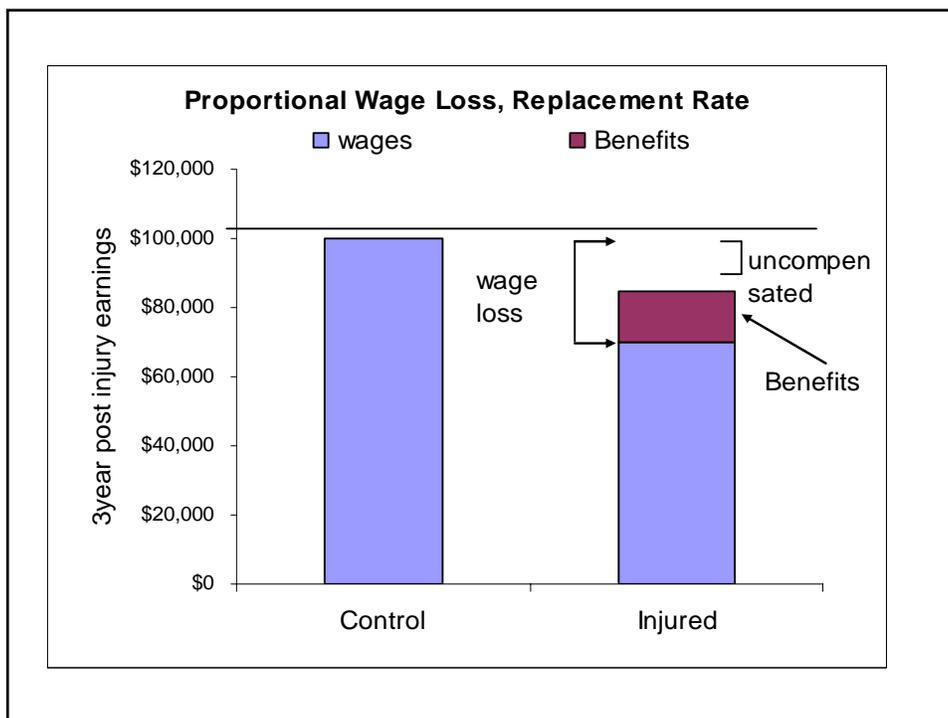
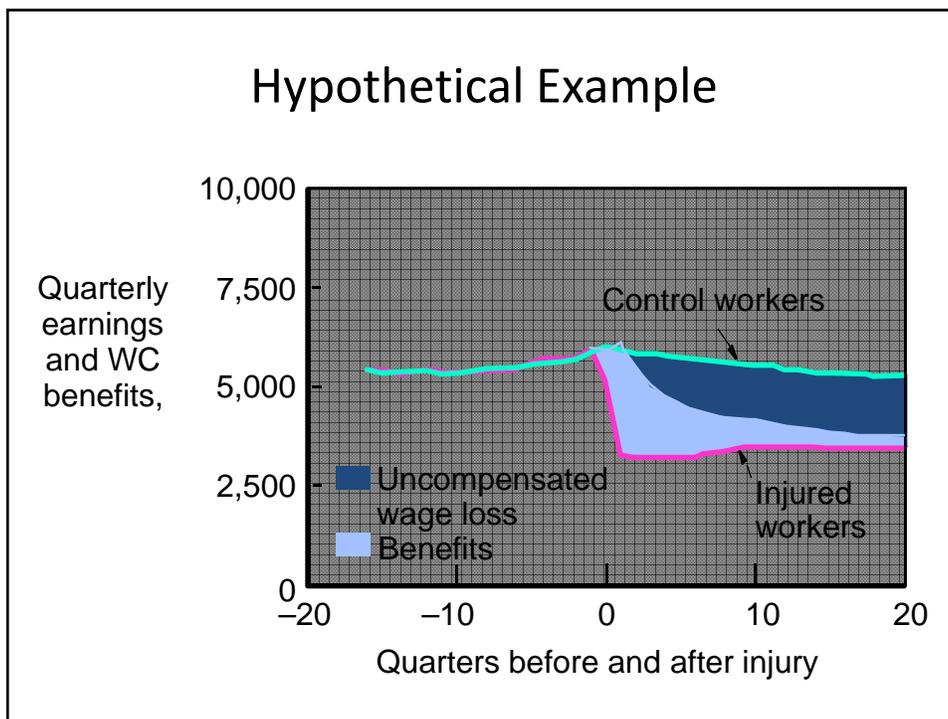
- Medical-only claimants are pool of potential matched controls. We use their wages as a proxy for injured worker wages, in the absence of an injury

Matching Injured Workers to “Controls”

- Matching Criteria
 - Gender
 - Age
 - Wage, 4 quarters prior to injury quarter
 - Employer size
 - Occupation (class code)

Hypothetical Example

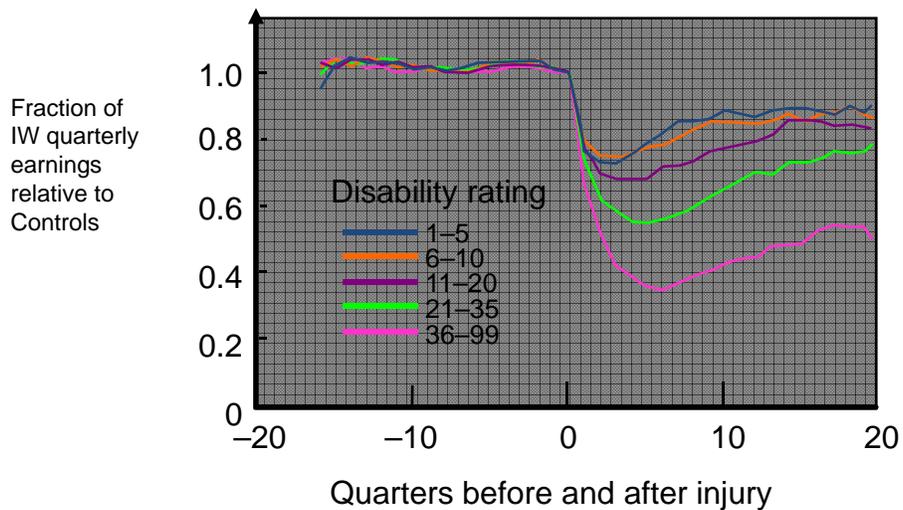




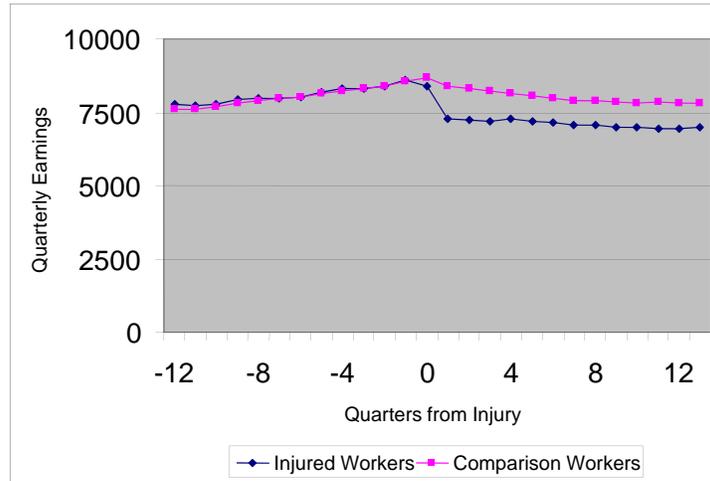
Measures

- Wage Loss
Control Earnings – Injured Worker Earnings
- Proportional wage loss
 $(\text{Wage Loss}) / (\text{Control Earnings})$
- Replacement Rate—after tax
 $(\text{Benefits}) / (\text{Wage Loss} * (1 - \text{tax rate}))$

Equity—Higher Benefits for Higher Wage Loss

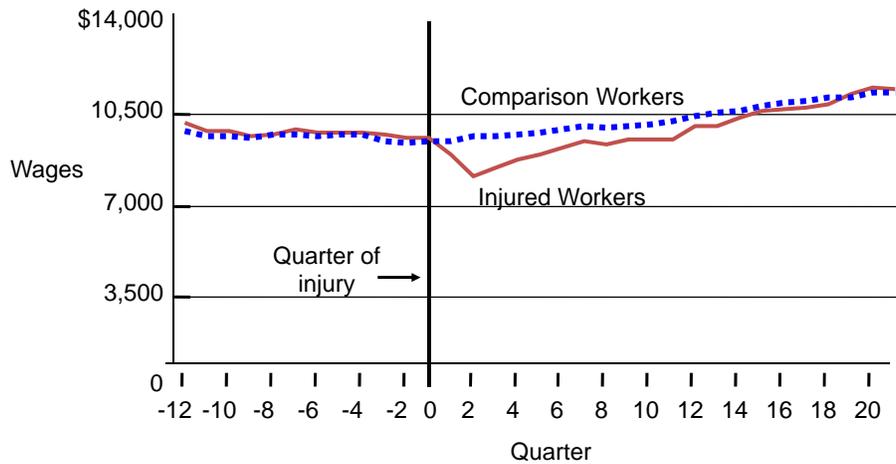


Equity- Wage Loss all Workers



If Working for At-Injury Employer, Wages Quickly Recover

Wages at At-Injury Employer Before and After Injury:



Outcome Measures

- Proportional Wage Loss & Replacement rates
 - All workers
 - By severity of impairment
 - By size of employer
 - By age range
 - By return to the at-injury employer
 - By gender

Benefit Adequacy Study--Timetable

- ERD and UI have extracted data
- ERD has merged data

- Preliminary data analysis in progress--July
- Preliminary results—August
- Final results--September

Questions?