Hawai'i's Workers' Compensation System; Coverage, Benefits, Costs: 1994-2004

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Introduction

The purpose of this report is to publish and analyze basic statistics concerning Hawaii's Worker's Compensation system. This report is updated annually as new data becomes available. The reason these statistics need to be published separately from their sources is two fold. First they are reported separately, and second, they are often a mass of statistics that need to be analyzed, in order to be made sense of.

During 2004 and 2005, the system seemed to be mired in controversy in regards to a legislative agenda proposed by Nelson B. Befitel, the Director of the Department of Labor and Industrial Relation. Befitel has described the system as "broken," due to high premium costs and rising benefit payments. This controversy was often confused, with vaguely sourced claims being made about Hawaii's workers compensation system.

Confusion arises, in part, because no single governmental entity publishes data on benefits and employer costs. What is published often does not provide clarity because it is a mass of raw data, scattered across different public and private bodies. Clarity on issues related to workers compensation can come from having access to all the data available from a variety of sources. Additional clarity can be achieved through using standard methodologies that are commonly used to make sense of available Workers' Compensation statistics.

In addition, although workers compensation is administered by individual states it is also subject to national trends. Distinguishing what is happening at a local level from what is happening nationally, or what is happening within the sphere that policy makers can control and what they cannot, is important in ensuring that policy at least does no harm.

For example, one would expect workers compensation costs and premiums to rise with economic expansion. Thus numbers for total benefit payments and premiums will also rise. Benefit payments as a result of increased wages, inflation and exposure to risk on the part of workers. Demographic changes also exert an influence. There are national trends where fewer workers are getting injured yet the cost per case rises. This could be due to an aging work force, which tends to get injured less but takes longer to recover from an injury.

Because data across time can be manipulated to prove almost any point I use relatively long time periods here. It is useful to begin at some point before the reform of Workers' Compensation that was implemented in 1995, thus 1994 was chosen as a starting date. This reform instituted price caps on medical procedures. In 1996 legislation was enacted that helped establish the Hawaii Employers Medical Insurance Corporation (HEMIC).

Recent data covering 2004, published by the Hawaii Department of Labor and Industrial Relations and the United States Bureau of Labor Statistics indicate the following:

- After rising for four years total benefit payments declined by 1.3 percent
- At the same time payrolls rose by 7.6 percent, and employment by 3 percent.

- This meant that benefits per $100 payroll declined from $1.57 during 2003 to $1.44 in 2004, an 8.3 percent decline. Benefits per covered worker declined to $490 from $511, a 4.2 percent decline.These declines were across the board. Every category listed declined, lost days, cases, and cases with cost all declined.
- Proportionally low benefit payments relative to premiums means Hawaii has an abnormally high profit rate on this line of insurance. Hawaii insurers earned a 12 percent profit on premiums relative to a national average of 4 percent in 2003.
- The insurance Commissioner has announced that loss costs declined 18.5 percent based on 2003 data and that as a result base premium rates should decline by that amount beginning in January 2006.

Basic Data

Table 1, below, provides basic data on benefits and coverage for Hawaii's Workers' Compensation system. This data will be used in the analysis, which follows. There are two basic sources for workers compensation data: the Hawaii State Insurance Commissioner and the Hawaii State Department of Labor and Industrial Resources. The Insurance Commissioner (HSIC) reports premiums earned and the "losses" or benefit payments these same insurance companies paid out during the calendar year. The Department of Labor and Industrial Relations (DLIR) reports benefit payments. There is a discrepancy between the Insurance Commissioner's data and the data from DLIR. This is because the DLIR data includes benefits paid by the self-insured and the state and county government while the Insurance Commissioners' does not. There is a further discrepancy between the DLIR and the Insurance Commissioner in that the DLIR benefit payments for "Carriers" which should match the Insurance Commissioner data is consistently greater. Hawaii's Insurance Commissioner has not yet published data for 2004. As of 2003 premium payments per $100 of payroll were $2.67. In 2003 benefits per $100 of payroll was $1.11 according to data from the Insurance Commissioner.

The data on workers and wages is from the United States Bureau of Labor Statistics Census of Employment and Wages (CEW). This is a census rather than a survey and counts the workers covered by the unemployment insurance system. In Hawaii all of the workers covered by the unemployment insurance (UI) system are also covered by the workers compensation system. Federal employees and those outside the UI system such as long-shore and maritime workers are not covered by the state system. It should be noted that none of these numbers are adjusted for inflation. In addition there is a considerable lag in reporting these numbers. Finally, payroll is further adjusted to exclude employee payroll covered by private sector self-insured employers where appropriate.

As is indicated below, there were declines in Workers Compensation benefits in every category during 2004. Overall benefits declined by 1.3 percent.

Covered wages grew by 7.6 percent, and covered workers by 3 percent. When one considers that wages enter into workers compensation benefits directly as “cash” indemnity payments in the table below, the decline is quite remarkable.

Table 1: Summary Table of Hawaii Workers Compensation Data; 1994-2004								
Year	Premiums (insurance Commissioner)	Losses, Claims, and Benefits (Insurance Commissioner)	Total Benefit Payments (In 1,000s)	Medical (In 1,000s)	Cash (In 1,000s)	Covered Workers (In 1,000s)	Covered Wages (In millions)	Covered Wages of Private Sector Workers
1994	$361,974,619	$242,981,592	$343,080	$145,500	$197,580	508	$13,333	$9,267
1995	$326,092,777	$217,981,592	$326,123	$129,126	$196,997	505	$13,411	$9,075
1996	$269,029,307	$163,537,981	$288,495	$101,665	$186,830	502	$13,518	$9,337
1997	$182,312,433	$128,342,479	$254,915	$94,425	$160,490	504	$13,903	$9,547
1998	$161,248,713	$122,807,973	$233,225	$87,019	$146,206	504	$14,239	$9,598
1999	$157,708,743	$110,554,029	$222,056	$85,513	$136,543	508	$14,733	$10,006
2000	$175,068,053	$118,203,719	$231,359	$91,185	$140,174	523	$15,545	$10,720
2001	$216,819,076	$116,478,726	$252,041	$103,304	$148,737	527	$15,994	$11,056
2002	$269,522,284	$117,311,740	$267,827	$105,927	$161,907	528	$16,694	$11,347
2003	$308,367,513	$128,532,200	$274,922	$106,912	$168,010	538	$17,564	$11,536
2004			$271,290	$106,766	$164,524	554	$18,893	$13,617
	Percent Changes							
1994								
1995	-9.9%	-10.3%	-4.9%	-11.3%	-0.3%	-0.6%	0.6%	-2.1%
1996	-17.5%	-25.0%	-11.5%	-21.3%	-5.2%	-0.6%	0.8%	2.9%
1997	-32.2%	-21.5%	-11.6%	-7.1%	-14.1%	0.4%	2.8%	2.2%
1998	-11.6%	-4.3%	-8.5%	-7.8%	-8.9%	0.0%	2.4%	0.5%
1999	-2.2%	-10.0%	-4.8%	-1.7%	-6.6%	0.8%	3.5%	4.3%
2000	11.0%	6.9%	4.2%	6.6%	2.7%	3.0%	5.5%	7.1%
2001	23.8%	-1.5%	8.9%	13.3%	6.1%	0.8%	2.9%	3.1%
2002	24.3%	0.7%	6.3%	2.5%	8.9%	0.2%	4.4%	2.6%
2003	14.4%	9.6%	2.6%	0.9%	3.8%	1.9%	5.2%	1.7%
2004			-1.3%	-0.1%	-2.1%	3.0%	7.6%	18.0%

Sources: National Academy of Social Insurance; State of Hawaii Department of Labor and Industrial Relations; United States Bureau of Labor Statistics

Note: National Academy of Social Insurance Data Covers 1994 through 2003; 2004 data from Department of Labor and Industrial Relations Workers Compensation Data Book and BLS Census of Employment and Wages net of Federal Employees; Private Sector Wages are Private Sector Wages net of Private Sector Self Insured and Captive Insurance

Making Sense of the Numbers: Premiums and Benefits per $100 of Payroll

In order to make comparisons across time and between states it is usual to express benefits as a proportion of payroll costs. Doing this, controls for growth in the economy, and the relative size of the economies of different states. Table 1 below summarizes the results of this calculation.

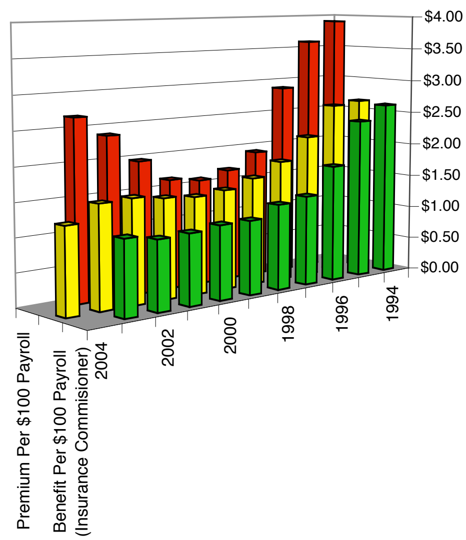
Table 2: Benefits per $100 of Payroll and Worker				
Year	Benefits Per $100 Covered Wages	Medical Per $100 Covered Wages	Cash per $100 Payroll	Benefit Per Covered Worker (adjusted for inflation)
1994	$2.57	$1.09	$1.48	675
1995	$2.43	$0.96	$1.47	632
1996	$2.13	$0.75	$1.38	554
1997	$1.83	$0.68	$1.15	484
1998	$1.64	$0.61	$1.03	444
1999	$1.51	$0.58	$0.93	415
2000	$1.49	$0.59	$0.90	412
2001	$1.58	$0.65	$0.93	441
2002	$1.60	$0.63	$0.97	463
2003	$1.57	$0.61	$0.96	456
2004	$1.44	$0.57	$0.87	423
Percent Change				
1995	-5.5%	-11.8%	-0.9%	-6.4%
1996	-12.2%	-21.9%	-5.9%	-12.3%
1997	-14.1%	-9.7%	-16.5%	-12.6%
1998	-10.7%	-10.0%	-11.0%	-8.3%
1999	-8.0%	-5.0%	-9.7%	-6.6%
2000	-1.3%	1.1%	-2.7%	-0.6%
2001	5.9%	10.1%	3.1%	6.9%
2002	1.8%	-1.8%	4.3%	4.9%
2003	-2.4%	-4.1%	-1.4%	-1.5%
2004	-8.3%	-7.2%	-9.0%	-7.2%

Notes: Data on Total Benefit Payments, Covered Workers, Covered Wages from National Academy of Social Insurance (NASI), Medical and Cash NASI 2001,2002; Workers Compensation Data Book Before 2000 and 2003; Workers Compensation Data Book: Processed Cases, Cases With Cost, Days Lost; BLS Covered Wages and Employment for 2003 and 2004 net of Federal.

Figure 1, below, and its accompanying data table, also does this. The data from the DLIR is for costs related to private insurance carriers and should be comparable to the data from the Insurance Commissioner. There are also differences between benefit payments reported by the Insurance Commissioner and the DLIR. The Insurance Commissioner's data shows a continuing trend downward. The DLIR data shows a two-year rise, and then a decline. In neither case could the sharp rise in premiums have been caused by the relatively modest rise shown by the DLIR data. Furthermore the benefit payments reported by the Insurance Commissioner are directly related to the premiums paid, in that the same companies are reporting both. The DLIR numbers are reported in order to provide a complete picture of benefit costs.

Basically the $100 payroll statistic represents something like an average cost number. The average cost of Workers' Compensation to Hawaii employers is the premium per $100 payroll and the benefit per $100 is the average cost to insurers of these policies. (There are, however, other expenses insurers accrue).

Figure1: Comparison of Premiums Per $100 Payroll with Benefits From Various Sources



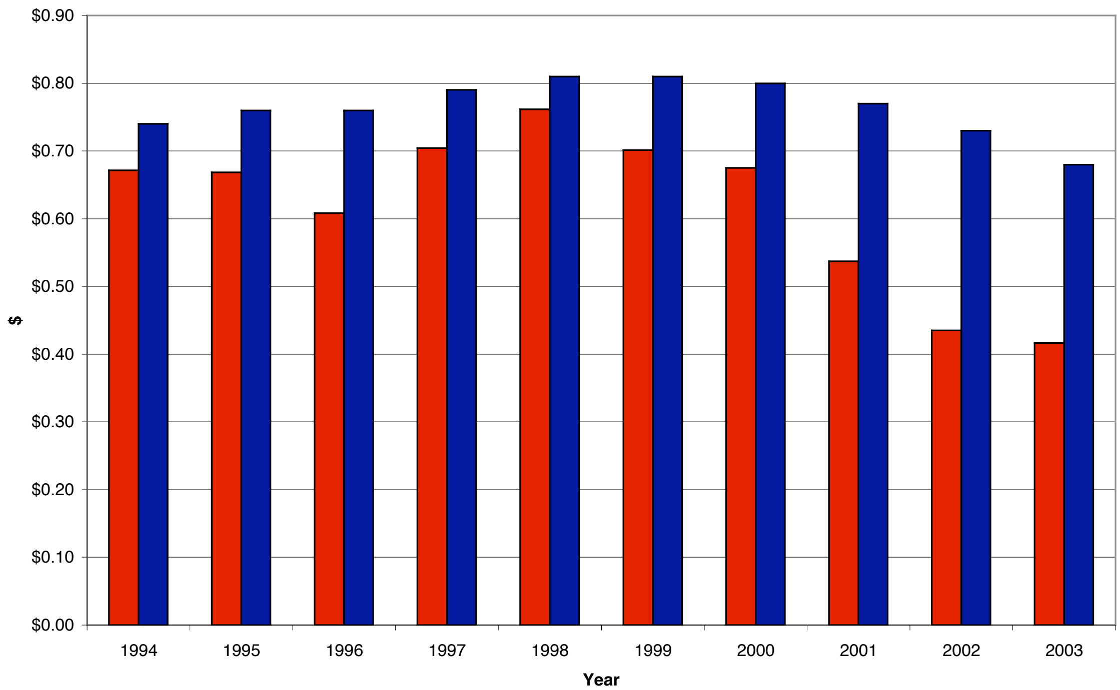
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Premium Per $100 Payroll	$3.91	$3.59	$2.88	$1.91	$1.68	$1.58	$1.63	$1.96	$2.38	$2.67	
Benefit Per $100 Payroll (Carriers DLIR)	$2.65	$2.61	$2.16	$1.82	$1.62	$1.49	$1.44	$1.48	$1.54	$1.52	$1.28
Benefit Per $100 Payroll (Insurance Commisioner)	$2.62	$2.40	$1.75	$1.34	$1.28	$1.10	$1.10	$1.05	$1.03	$1.11	

<u>Cost Benefit Analysis (Loss Ratio)</u>

A second useful statistic tells how much in benefits one dollar in premiums buy. Dividing total premium payments by total benefit payments derives this statistic. Below, this is done using premium revenues and "losses" from the Hawaii State Insurance Commissioner's, <u>Report.</u> This a standard statistic often referred to as the "loss" ratio. Figure 2 below reports this statistic. As can be seen, utilizing directly comparable data from the Hawaii State Insurance Commissioner, this statistic is only 44 cents per dollar for 2002. Data from Insurance Commissioner's most recent report indicates that in 2003 this statistic fell to 42 cents per dollar. As Figure 2 below indicates the amount of benefits each dollar in premiums buys has been declining steadily over the past several years.

The “loss ratio” is a standard statistic found in most insurance industry data reporting. Its value is that it ties together the most basic cost insurers face and the premiums they collect. Furthermore, most discussion around workers’ compensation focus on workers’ compensation benefit payments based on the assumption that benefit payments directly effect premiums. Thus this statistic combines the two directly. What this indicates is that premium increases have not been related to benefit payments in Hawaii.

Figure 2: Comparison Losses per $1.00 in Premium Payment; U.S. and Hawaii



Insurance Industry Profits and Costs

Benefit payments are not the only costs associated with the insurance industries’ delivery of workers’ compensation insurance. There are administrative costs in its provision as well. One question that is raised is how profitable is Hawaii’s line of workers’ compensation insurance. The National Association of Insurance Commissioners (NAIC) provides information on this. The National Council on Compensation Insurance (NCCI) also publishes similar data. The NAIC, however, is a more independent organization, and it includes in its data some investment income not included by NCCI.

As noted above, insurance companies frequently report characteristics of their operations as a percentage of their premium. The “loss” ratio cited in figure 2 is an example of this. A second one is the “combined ratio” which includes “losses,” or benefits paid, marketing expenses, and the cost of insurance operations. The combined ratio often seems to indicate that insurance companies are losing money because it does not include investment income that insurance companies receive. Because insurers collect in one, year premiums that are to be used to pay benefits over many years, they invest the money that they are holding. It is assumed that the return on these investments will contribute to their profits, and/or reduce the premiums they must charge. Therefore measures of profitability should include investment income. Table 3, below, reports profitability by state. As can be seen Hawaii is tied for sixth place nationally with Florida with a 14.4 percent return. Furthermore this is more than double the national average of 6.9 percent.

Table 3: Return on Net Worth			
Nevada	25.9	Pennsylvania	5.6
South Dakota	19.4	Arizona	5.4
Rhode Island	17.4	New Mexico	5.4
District of Columbia	15.3	Iowa	5.0
Kansas	14.5	Oregon	4.9
Florida	14.4	Tennessee	4.8
Hawaii	**14.4**	Massachusetts	4.7
Michigan	14.1	North Carolina	4.7
Indiana	14.0	Kentucky	4.6
Mississippi	12.1	Oklahoma	4.4
Louisiana	11.6	Vermont	4.4
Utah	11.6	Maryland	4.2
Arkansas	10.9	Maine	4.0
Missouri	10.3	Alabama	3.6
New York	9.9	Virginia	3.3
Texas	9.8	Georgia	3.2
Colorado	8.3	California	3.1
Nebraska	7.4	New Jersey	2.8
Minnesota	7.3	Idaho	0.6
Wisconsin	6.9	Alaska	-1.4
Countrywide	**6.9**	Montana	-5.3
Connecticut	6.7	Delaware	-5.9
New Hampshire	5.8	South Carolina	-8.8
Illinois	5.6		

Source: National Association of Insurance Commissioners, Profits by Line by State, Calculations By Michigan State Workers' Compensation Center.

The return on assets tells a part of the story. As noted above, insurers invest money from premiums, and this constitutes part of their revenue stream. These revenues are used as part of insurance companies profits and also used to reduce premium costs. The total "loss costs" can be deducted from premiums and presented as a ratio of the premium dollar. Returns from assets can be added to the premium dollar, this provides an overall picture of the insurer's side of workers' compensation. In Table 4, below, the results of a series of calculations are presented which give a full picture of this.

Consistent with the loss ratio above, Hawaii's insurers have profits that are three times what the national average is. Surprisingly, as a proportion of premiums, Hawaii insurers' investment income is below the national average. Most of the rest of the table is what one would expect; administrative costs are the same in Hawaii as nationally and taxes are higher. The higher taxes reflect the General Excise Tax. The primary reason profits are high is that losses incurred are low.

Table 4: Workers' Compensation Insurance Results: Comparison of Hawaii with the United States

	Hawaii			United States		
	Income	Expenses	Results	Income	Expenses	Results
Premium	1.00			1.00		
Investment Income	0.09			0.12		
Losses Incurred		0.58			0.73	
Loss Adj. Expense		0.12			0.12	
General Expense		0.05			0.05	
Selling Expense		0.11			0.11	
Taxes		0.11			0.05	
Dividends		0.00			0.02	
Combined Ratio			0.97			1.08
Insurance Profits			0.12			0.04

Source: Calculations by The Workers' Compensation Center, Michigan State University; based on data from the National Association if Insurance Commissioners, "Profits by Line by State."

Summary

In many ways recent events and data indicate that the workers' compensation system is healthy. Beginning in January there will be an 18.5 percent drop in insurance premiums for Hawaii's employers, there were dramatic decreases in workers compensation benefit payments during 2004, as reported by Hawaii's Department of Labor and Industrial Relations, this would tend to indicate that such a trend would continue next year. On the other hand there is a question as to why employer insurance costs are so high. Clearly benefit payments are not part of the story as the losses reported as a proportion of the premium dollar are so low. In addition Hawaii seems to have an unusually high rate of profit on this line of insurance. There are also troubling reports about access to the system by injured workers and the availability of medical care. In terms of benefit payments and premiums the declines cited above should help clarify some of the controversy that has been generated by workers' compensation over the past two years.

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