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The second century of workers' compensation programs

Workers' Compensation: Analysis for Its Second Century. By H. Allan Hunt and Marcus Dillender. Kalamazoo, MI: W. E. Upjohn Institute for Employment Research, 2017, 138 pp., $14.99 paperback.

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Workers' Compensation, by H. Allan Hunt and Marcus Dillender, provides a concise analysis of workers' compensation programs in the United States and Canada by focusing on three issues: adequacy of benefits, return to work, and injury prevention. The authors, both senior economists at the W. E. Upjohn Institute, have extensive experience in research related to labor economics, particularly worker compensation and health. Their five-chapter book is divided into three sections, each discussing one of the aforementioned issues, and includes introductory and concluding chapters.

In the section on adequacy of benefits, the authors discuss empirical evidence from research based on data from the United States and Canada. They note disagreements (due to various reasons) regarding the optimal means for determining how to measure the adequacy of benefits. They identify some workers' compensation systems that use better measurement approaches than others. Their analysis favors the use of *earnings replacement rates* over *loss replacement rates* in investigating the adequacy of benefits.

The *earnings replacement rate* is a calculated ratio (a fraction). The numerator is the sum of workers' compensation income benefits and postinjury earnings. The total estimated earnings without injury (comparison earnings) are in the denominator. Adding the postinjury earnings considers the residual earnings capacity of injured workers. The *loss replacement rate* is also a calculated ratio. However, its numerator is the workers' compensation income benefits, and its denominator is the difference between comparison earnings and postinjury earnings. Compared with the *loss replacement rate*, the *earnings replacement rate* results in a higher measured replacement rate because of mathematics, but it more accurately reflects that most injured workers return to work and that their earnings losses are temporary. The *earnings replacement rate* uses the perspective of the worker—and the worker's income flow—rather than the perspective of the workers' compensation system.

In the book's section on return to work, the authors observe that workers' compensation programs focus on prevention, compensation, and rehabilitation. However, return to work has emerged as the primary goal after a disability or illness, aiming to restore a worker to his or her previous status quo. The authors explore research and policy initiatives that address return to work, providing examples of such policies.

The determinants of return to work are multidimensional, including, among other things, medical treatment, rehabilitative services, employer policies, injured worker characteristics, and job requirements. To address the cost of workers' compensation, larger companies adopt a technique known as disability management—a set of practices designed to minimize the disabling impact of injuries during employment. Disability management is not the same as accident prevention. It works toward better medical management, more accommodations of existing worker limitations, and other efforts to prevent workplace disability.

In the section on injury prevention, the authors identify three primary ways in which workers' compensation programs influence workplace safety. First, these programs provide guidance on injury and illness prevention. Second, they convey general information on safety. Third, they provide monetary incentives for safety improvement. The authors focus on how workers' compensation can affect safety incentives in the workplace. After analyzing conflicting results from previous research, they conclude that safety is enhanced when workers' compensation insurance premiums reflect prior losses. They also find that high-deductible workers' compensation policies can provide smaller employers with incentives for injury prevention.

The authors' investigation reveals that many firms have developed their own safety and prevention programs, incentivizing employees to participate in those programs. In addition, some states have promoted and assisted this effort. For example, assigned-risk firms in Massachusetts have received a workers' compensation premium credit for enrolling in a loss-management program. Likewise, Pennsylvania has offered a 5-percent discount on workers' compensation premiums for employers with a certified joint labor–management safety committee. Similarly, North Dakota has offered a 5-percent annual discount on workers' compensation premiums for firms that enroll in a risk-management program.

In the book's concluding discussion, the authors note that their work is based on the assumption that both workers and employers make choices about providing safety and responding to injuries. Employers provide levels of safety in the workplace, but workers choose how careful they should be in performing their duties or how they should respond to incidents and incentives. Financial incentives for workers and employers often contradict each other, because employers seek to minimize costs and workers face a loss of income during a period of disability. However, return-to-work policies have a highly motivating win–win aspect, as worker incomes are higher and employer costs lower when injured workers return to work faster. Despite the difficulties in comparing the performance of various workers' compensation programs, authors Hunt and Dillender do an excellent job in providing valuable empirical findings and direction for policymakers and researchers. Their book is a very interesting read, and I highly recommend it to all interested audiences.