

## SPECIAL PROJECTS



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## Understanding Hawai'i Workers Compensation Premiums and Benefits, 2004

by Lawrence W. Boyd, Ph. D.  
Labor Economist

A review of benefit costs and premiums indicate that a recent rise in the cost of premiums is not related to increases in of benefits. Total premiums reported to the insurance commissioner rose by 71% while benefit payments by those same companies rose by just 6% between 1999 and 2002. A discrepancy exists between those benefit payments reported by the insurance commissioner and those reported by the Department of Labor and Industrial Relations for private sector carriers; DLIR reports a 16% growth in the same years that the insurance commissioner reports a 6% growth. Both of these are below the number expected as a result of growth in the economy. Premium per \$100 of payroll rose by 51% between 1999 and 2002, while benefits declined by 6% (insurance committioner) or increased by 3% (dlir). Relating premium payments to benefit payments indicates there is no relationship between the two.



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## Understanding Hawai'i's Workers Compensation Premiums and Benefits

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November 2004



### Measuring Workers Compensation Benefits and Premiums-Sources

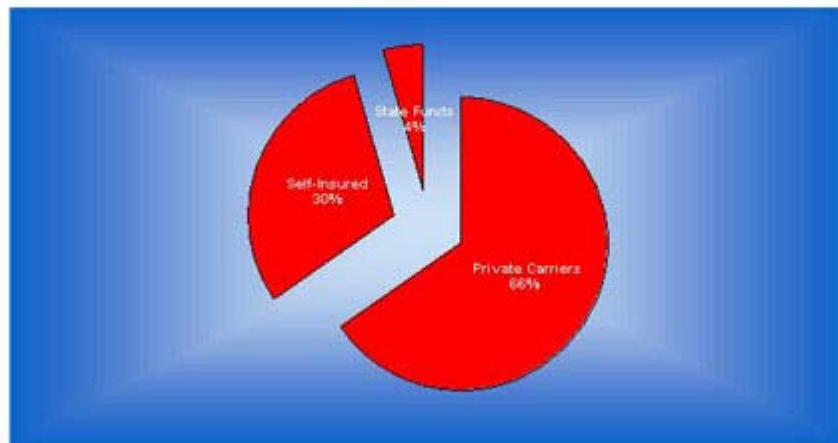
- State of Hawai'i Insurance Commissioner
  - Total Premium and Benefit Payments by Private Sector Insurers (Excludes Self Insured). Numbers do not agree with DLIR
- State of Hawai'i Department of Industrial and Labor Relations
- Other entities and agencies primarily National Academy of Social Insurance
- U. S. Bureau of Labor Statistics-Census of Employment and Wages
  - Workers covered by unemployment insurance (96.7 percent of wage and salary workers) payroll and employment information
- Note that data becomes available with a lag (Currently available 2002 some 2003)

### A Word on Differences

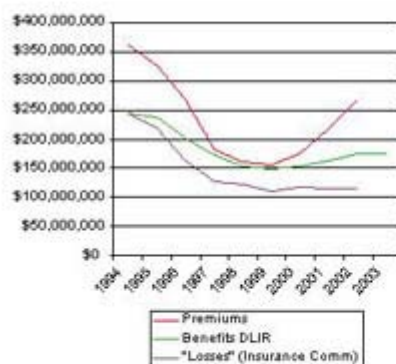
- Misunderstandings
  - Ex. DLIR claims national study by Oregon state government places Hawai'i 3rd in premium costs cites \$3.48 per \$100 in payroll. National Academy of Social Insurance reports \$2.38
- Methodology

- EX. DLIR emphasizes decline in claims and rise in cost per case
- Cannot tie premiums and benefit payments together

## Not all Employers Pay Premiums (2002)

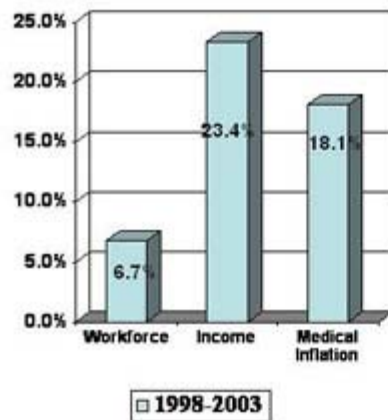


## Premiums and Comparable Benefit Payments



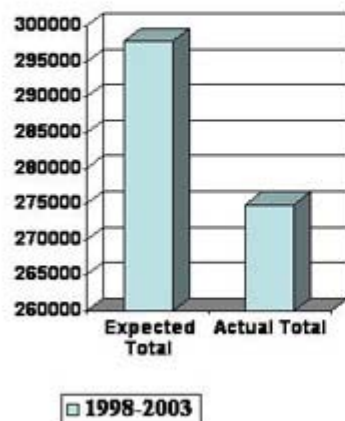
- Sharp rise in total premiums: 71 percent between 1999-2002
- Small increase in benefit payments: Either 6 percent or 16 percent

## Growth in Economic Variables



- Growth in the economy leads to growth in benefit payments
- Economic variables that directly effect workers compensation
  - Workforce
  - Income
  - Medical Inflation

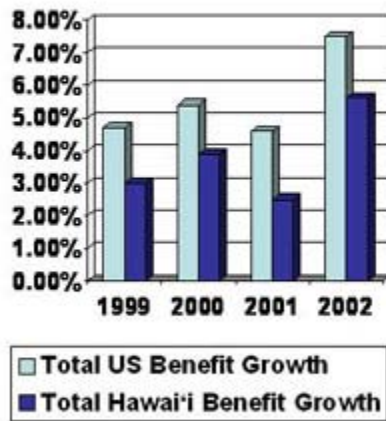
## Expected and Actual Benefit Payments



- Given economic growth expected benefits would have been \$298 Million.
- Actual benefit payments were \$274 million
- Controls within the system led to a reduction of \$24 million

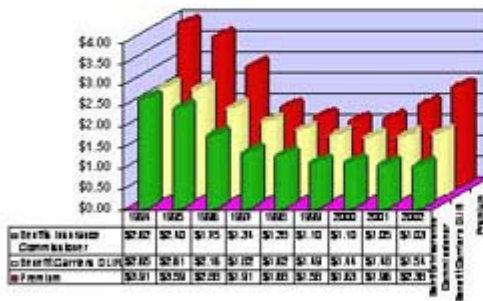
National Hawaii Compensation

## NATIONAL HAWAII COMPARISON. Growth in Total Benefits



- Between 1998 and 2002 total benefits grew by 24 percent on the mainland and 15.8 percent in Hawai'i
- Benefit payments in Hawai'i have grown by less in Hawai'i
- Despite more robust economy

## Premium Rises and Benefits per \$100

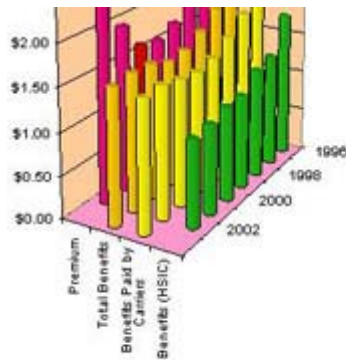


- Premiums per \$100 of payroll rose by 51 percent between 1999 and 2002
- Between 1999-2002 benefit payments either declined by 6 percent (Insurance Commissioner) or increased by 3 percent (DLIR)
- Cannot say rise was driven by benefit payments. Note premiums began to rise before benefits

## Premiums and Benefits Per \$100 of Payroll

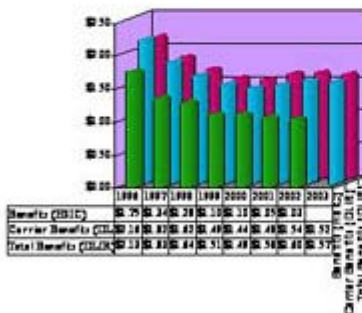


- No matter which measure is used the comparison remains valid



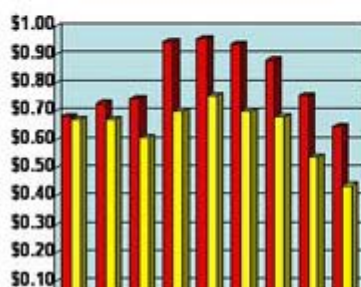
- In terms of benefits either very limited growth, and then decline in 2003, or overall decline
  - Total benefits
  - DLIR benefits paid by private carriers self insured
  - Insurance Commissioner "losses" on premiums paid

## Is there a trend in benefit payments?



- Benefit payments per \$100 fell up to 2000, rose somewhat in 2001 and 2002, and then declined in 2003 (DLIR)
- Benefit payments (Insurance Commissioner) have trended downward

## One Dollar in Premiums Pays for How Much in Benefits?



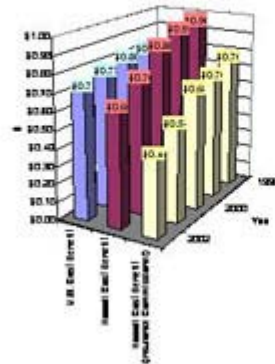
- In 1998 \$1.00 in premiums paid or "bought" 96 cents in benefits (DLIR) or 76 cents in benefits (Insurance Commissioner)
- In 2002 \$1.00 in premiums bought 65

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Benefit Per Premium	\$0.600	\$0.750	\$0.910	\$0.910	\$0.910	\$0.880	\$0.750	\$0.610	\$0.610
Benefit Per Premium	\$0.6	\$0.6	\$0.6	\$0.7	\$0.7	\$0.7	\$0.6	\$0.5	\$0.4

cents in benefits (DLIR) or 44 cents (Insurance Commissioner)

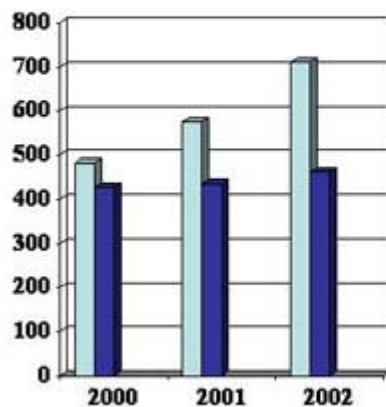
## Cost to Benefits Exceptionally Low in Hawai'i

Figure 4: Comparison U. S. Hawaii Benefit per \$1



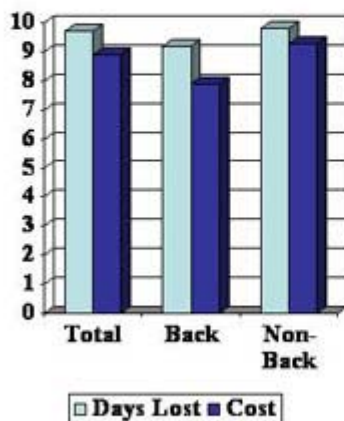
- Premiums Relative to Benefits (Cost Benefit Ratio) have declined in Hawai'i
- Well below the national average

## Covered Worker



- Using covered worker shows same relationship
- Rapidly rising premiums very small increase in benefits

## FRAUD?



- There was an increase benefit payments characterized by a rise in days lost and a decline in cases, especially between 2000-2001. Anecdotal evidence suggests that fraud happens in "self reported" type of injuries like back injuries
- Take back and stress injuries out of the data and compare the two
- Non-back injuries drove increase in days

## Severity?

	Cases With Cost	Cost	Time Lost
<b>Total</b>	<b>2.0%</b>	<b>9.0%</b>	<b>10.0%</b>
Dislocation	-2.0%	-22.0%	-34.0%
Fracture	-1.0%	-3.0%	-5.0%
<b>Sprains, Strains</b>	<b>2.0%</b>	<b>12.0%</b>	<b>18.0%</b>
<b>Amputation</b>	<b>3.0%</b>	<b>19.0%</b>	<b>54.0%</b>
<b>Cut, Laceration</b>	<b>3.0%</b>	<b>6.0%</b>	<b>10.0%</b>
Puncture, Exc Bites	2.0%	3.0%	-19.0%
<b>Other Open Wounds</b>	<b>9.0%</b>	<b>36.0%</b>	<b>-9.0%</b>
<b>Surface Wounds</b>	<b>3.0%</b>	<b>12.0%</b>	<b>6.0%</b>
Chemical Burns	2.0%	-9.0%	-29.0%
Heat Burns	-6.0%	10.0%	-29.0%
<b>Concussion</b>	<b>-3.0%</b>	<b>30.0%</b>	<b>-4.0%</b>
<b>Multiple Injuries</b>	<b>17.0%</b>	<b>28.0%</b>	<b>28.0%</b>
<b>Electric Shock</b>	<b>10.0%</b>	<b>14.0%</b>	<b>13.0%</b>
Back Pain			
Hearing Loss Impairment	-25.0%	-34.0%	-92.0%
Circulatory System Disorders	-7.0%	-1.0%	7.0%
Hernia	2.0%	-1.0%	-18.0%
<b>Skin Disorders</b>	<b>4.0%</b>	<b>28.0%</b>	<b>-14.0%</b>
Other Sys Disease, Disorder	-3.0%	6.0%	-4.0%
Infections and Parasitic Disorders	-8.0%	-76.0%	-69.0%
Symptoms	-8.0%	2.0%	4.0%
<b>Exposure</b>	<b>14.0%</b>	<b>12.0%</b>	<b>365.0%</b>
<b>Other Injuries Illness</b>	<b>5.0%</b>	<b>15.0%</b>	<b>13.0%</b>

## Conclusions



- Cannot claim that a POLICY OF REDUCING BENEFITS WILL LEAD TO REDUCED PREMIUMS
- Reducing benefits by emphasis in fraud, cutoffs in benefits etc. will not have much effect on premium costs because assumptions are wrong. Can lead to cost shifting.
- Potential Reasons Premiums Have Grown
  - Returns on Insurers Portfolios
  - Estimation of future risks
  - ?



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