

**Report of the  
Governor's Workers' Compensation  
Review Commission**

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## **EXECUTIVE SUMMARY**

### **The Commission, Its Goals, and Sources of Information**

The Commission appointed by Governor Barnes consists of fourteen members, three ex officio members, and seven advisory members. This group includes academics, members of the legislature, claimants attorneys, defense attorneys, representatives from the insurance industry, organized labor, the textile industry, and government agencies. It was charged by the Governor to review and evaluate Georgia's laws and procedures affecting workers' compensation.

The Commission's primary goal was to prepare an accurate description of the current workers' compensation system in Georgia. More specifically, this Report provides detailed information regarding the number of claims, benefits paid to employees, employer costs, and insurance profitability. It also compares workers' compensation costs and benefits in Georgia with those in other states, particularly our Southeastern neighbors. Our purpose is to determine whether workers' compensation costs place Georgia employers at a competitive disadvantage in regional and national markets.

In preparing this Report, the Commission relied on the most recent available reports and data collected by organizations such as the National Academy of Social Insurance, the National Council on Compensation Insurance, the Workers Compensation Research Institute, the United States Department of Labor, and the Georgia State Board of Workers' Compensation.

## Major Findings

1. *The overall health of the Georgia workers' compensation system is quite good and is likely to continue to be good.* This assessment is based on a number of trends.

--Both nationally and in Georgia, the number of workers' compensation claims is declining.

--The number of claims has declined in Georgia despite significant growth in the size of the workforce.

--Georgia has a low percentage of claims in which the worker has missed seven or more days from work.

--The aggregate cost of workers' compensation to Georgia employers has declined despite increases in the number of covered workers.

--Workers' compensation costs have ranged between 1.74% and 2.99% of gross earnings during the past 17 years.

--Workers' compensation costs are currently less than 2% of gross earnings.

--In the 1990s, workers' compensation was a profitable line of insurance in Georgia compared to the profitability of workers' compensation in other states.

--However, in the 1990s, workers' compensation in Georgia recorded very low levels of profitability compared to many industries.

2. *Total workers' compensation costs do not place Georgia employers at a competitive disadvantage in regional or national markets.*

--Georgia has a low average "cost per worker" compared with other states. Every state

bordering Georgia has a higher average “cost per worker.”

–Every state contiguous to Georgia has a higher average “cost per claim.”

3. *Georgia has one of the lowest limits (caps) on maximum weekly indemnity benefits of any state.*

–Georgia is one of only a few states that cap the maximum weekly indemnity benefit at less than two-thirds of the state’s average weekly wage.

–33 states, including seven southern states, cap the maximum weekly indemnity benefit for temporary total disability at 100% of each state’s average weekly wage.

–The current cap on maximum benefits affects one-third of Georgia workers who receive indemnity benefits.

–Georgia is one of only a very few states that do not index their cap on maximum weekly benefits.

4. *Despite the low cap on maximum weekly indemnity benefits, Georgia has a comparatively high average total cost for claims with seven or more days’ lost time.*

–Georgia has a higher average total cost for claims with seven or more days’ lost time than many states.

–Georgia’s higher average total cost for this category of claim may be driven by indemnity rather than medical benefits.

–Georgia’s higher average indemnity benefit for this category of claim may be influenced by

a longer average duration for temporary total disability benefits.

–Georgia’s longer average duration for temporary total disability benefits is influenced by the use of a “return to work” instead of a “maximum medical improvement” standard.

5. *Benefits paid for catastrophic injuries are not currently placing an undue burden on the workers’ compensation system.*

–Benefits paid for catastrophic injury claims account for 6.7% of total benefits paid.

–The number and cost of catastrophic injury claims declined in recent years; but catastrophic injury claims need to be closely monitored, as the number and cost figures will change over time.

6. *The State Board of Workers’ Compensation needs to enhance its technological capabilities to collect, retain, and analyze data.*

– The Board currently must employ outside consultants to perform certain research.

– The Board currently does not store data for more than five years, making it difficult to track long-term trends.

7. *Georgia should continue to participate in studies that compare workers’ compensation system performance among states.*

## **Conclusion**

The vitality of the workers' compensation system is important to employers, employees, and the public. The best available data indicate that the workers' compensation system in Georgia is quite healthy. It delivers hundreds of millions of dollars in benefits each year relatively efficiently. Total costs to Georgia employers are low compared to costs in other states, and there is no evidence that workers' compensation costs place Georgia employers at a competitive disadvantage in regional or national markets. There are no signs of crises in the system. While the Commission found few problems with the workers' compensation system as a whole, this Report identifies certain features that merit further scrutiny, particularly the adequacy of indemnity benefits and the standard used to separate temporary from permanent disability.

This Report is the first fact-based assessment of the Georgia workers' compensation system. We hope it is not the last. Georgia workers need and deserve a system that provides adequate compensation to those who are disabled by work-related injury and disease. Georgia employers need and deserve a system whose costs do not place them at a competitive disadvantage in regional and national markets. All Georgians need and deserve a system that operates efficiently. Only through periodic assessments such as this Report can system performance be evaluated.

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## I. INTRODUCTION

Workers' compensation is big business. In the year 2000, more than 127 million workers in the United States were covered by various state workers' compensation systems<sup>1</sup> that paid more than \$45.9 billion in benefits.<sup>2</sup> In the same year, our state's workers' compensation laws covered more than 4 million Georgia workers, and Georgia employers or their insurers paid more than \$456 million in benefits.<sup>3</sup> The public clearly has an interest in a program that affects so many people and involves the annual expenditure of so much money. With this in mind, Governor Roy Barnes established this Commission and charged it to review and evaluate Georgia's laws and procedures affecting workers' compensation.

At our first meeting, the Commission identified as its primary objective the compilation and analysis of facts pertaining to the Georgia workers' compensation system. We firmly believe that policy decisions should be driven by facts, rather than anecdotes or assumptions. The Commission gathered the most recent factual information from reliable sources such as the National Academy of Social Insurance (NASI), the National Council of Compensation Insurance, Inc. (NCCI), the Workers Compensation Research Institute (WCRI), and the Georgia State Board of Workers' Compensation (State Board). This Report summarizes the data compiled from these and other sources. Before delving into the factual details, we will first provide a brief overview of the workers' compensation system and its major goals and objectives.

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<sup>1</sup>National Academy of Social Insurance, Workers' Compensation Coverage by State, Table 1 (October 2002).

<sup>2</sup>National Academy of Social Insurance, Workers' Compensation: Benefits, Coverage, and Costs, 2000 New Estimates (June 2002).

<sup>3</sup>State Board of Workers' Compensation, 2001 Annual Report, At-A-Glance (2002).

## *A. A Brief History and Overview of Workers' Compensation*

Workers' compensation systems arose first in Europe in the late 1800's and in the United States in the early 1900's. The impetus for such systems was the rising toll of work-related deaths and injuries associated with the shift from an agricultural to an industrial economy. It is difficult today to comprehend the danger of the workplace in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. The metaphor of war was often used to convey the magnitude of industrial carnage. For example, Secretary of the Interstate Commerce Commission Edward Moseley compared the number of occupational deaths and injuries in the railroad industry with those during the great battles of the Civil War. Moseley stated, "More of the grand army of railway men of this country were cut and bruised and maimed and mangled last year than all the Union wounded and missing on the bloody field of Gettysburg; nearly equal in number to the wounded and missing in the reign of death and devastation of Shiloh, first and second Bull Run and Antietam combined..."<sup>4</sup> Others pointed out that in 1917 more American workers died on the job than did American soldiers fighting in World War I.<sup>5</sup>

Tort law proved inadequate for providing compensation to those killed or disabled by work-related injuries. Many injuries and deaths simply were not the fault of an employer.<sup>6</sup> The "unholy trinity" of contributory negligence, assumption of risk, or the fellow servant doctrine often defeated work-related

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<sup>4</sup>Melvin L. Griffith, *The Vindication of a National Public Policy under the Federal Employers' Liability Act*, 18 *Law and Contemp. Prob.* 160, 163 (1953) (quoting Edward A. Moseley).

<sup>5</sup>E.H. Downey, *Workmen's Compensation* (MacMillan Co., 1924).

<sup>6</sup>Larson cites a detailed study of German industrial injuries that found that approximately 17% of industrial injuries were caused by employer fault. The remaining 83% of workplace injuries were attributable to employee fault (29%), no one's fault (42%), the fault of both employer and employee (5%), negligence of a fellow servant (5%), or an act of God (2%). 1 *Larson's Workers' Compensation Law* § 2.03 (2000).

injury claims that might have otherwise been actionable in tort.<sup>7</sup> Professor Larson concluded that the tort system “was a complete failure and in most serious cases, left the workers’ family destitute.”<sup>8</sup>

National conferences and state commissions began advocating the adoption of workers’ compensation laws. State statutes soon followed. Many of the early state workers’ compensation systems were declared to be unconstitutional.<sup>9</sup> The turning point came in 1917 when the United States Supreme Court upheld the New York law in New York Central R.R. Co. v. White.<sup>10</sup> By 1920 all but eight states had adopted workers’ compensation acts. Georgia passed its first workers’ compensation law in 1920.<sup>11</sup> The Georgia Supreme Court upheld the constitutionality of this statute in Metropolitan Cas. Ins. Co. of N.Y. v. Huhn.<sup>12</sup>

Today, every state has a workers’ compensation system and most share the same fundamental features. Limited compensation is provided to injured workers or their survivors on a “no-fault” basis provided the death or injury is work related. In Georgia and many other states, the element of work-relatedness is reflected in the phrase “arising out of and in the course of employment.” Basic compensation includes medical and limited income benefits. Income benefits are often referred to as “indemnity benefits.” The benefits provided under workers’ compensation protect workers and their families from the catastrophic economic consequences of a disabling occupational injury. Unlike damages in tort, workers’ compensation benefits are not intended to make the worker “whole” or to offer any compensation for non-

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<sup>7</sup>Id.

<sup>8</sup>Id., at § 2.06.

<sup>9</sup>The historical development of workers’ compensation systems is summarized in 1 Larson’s Workers’ Compensation Law § 2.07 (2000).

<sup>10</sup>243 U.S. 188 (1917).

<sup>11</sup>Ga. Laws 1920, p. 167.

<sup>12</sup>165 Ga. 667, 142 S.E. 121 (1928).

economic loss such as pain and suffering. Workers' compensation is the employee's "exclusive remedy," so that neither the injured worker nor her family can sue the employer in tort. This arrangement is often referred to as a quid pro quo. That is, in exchange for prompt, though limited, compensation without regard to fault, employees surrender their right to sue their employers in tort. Conversely, in exchange for incurring limited liability on a no-fault basis for work-related injuries and death, employers receive an immunity from tort suits by employees or their families. Disputed workers' compensation claims typically are processed through an administrative agency rather than a court. Administrative law judges rather than juries serve as the finders of fact.

### *B. The Goals and Objectives of a Workers' Compensation System*

To assess how well a workers' compensation system is functioning, we must identify goals and objectives. We adopt as our benchmarks the following five objectives listed by the National Commission on Workmen's Compensation Laws in its 1972 Report<sup>13</sup>:

1. Provide Broad Coverage of Employees and Work-Related Injuries and Diseases;<sup>14</sup>
2. Provide Substantial Protection Against Interruption of Income;
3. Provide Sufficient Medical Care and Rehabilitation Services;
4. Encourage Safety;<sup>15</sup> and
5. Deliver Benefits Efficiently.

Our Commission directed most of its efforts towards items 2, 3, and 5. More specifically, we

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<sup>13</sup>The Report of the National Commission on State Workmen's Compensation Laws 35-40 (1972).

<sup>14</sup>With regard to item 1, 88.1% of Georgia workers are covered by workers' compensation laws, compared to the national average of 87.5%. National Academy of Social Insurance, Workers' Compensation Coverage by State, Table 1 (October 2002). The two major exclusions from coverage under Georgia law are domestic and agricultural employment. The Commission did not address these exclusions.

<sup>15</sup>Although this Report does not directly evaluate the extent to which the workers' compensation system promotes workplace safety, it does point out in the next section that the number and rate of workplace injuries

measured workers' compensation costs and benefits in Georgia and how they compared with costs and benefits in other states, particularly with states in the Southeast that are our primary competitors for both business and labor.

This Report does not address many more specific issues that might merit additional study. For example, we do not consider whether agricultural workers should continue to be excluded from coverage or whether there is a continued need for the Subsequent Injury Trust Fund. These and other more narrowly focused issues lie outside the ambit of this Report.

The bulk of this Report will address the questions of cost and benefits in some detail. Before doing so, however, we identify some of the "big-picture" driving workers' compensation systems. Understanding these trends is necessary to place the details of costs and benefits in context.

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and the number of cases with days away from work have been steadily declining.

## II. BIG-PICTURE TRENDS IN WORKERS' COMPENSATION NATIONALLY

Three related trends shape the present and future of workers' compensation. The first is the long-term decline of occupational injuries and fatalities; the second is a decline in the number and frequency of workers' compensation claims; and the third is a decline in workers' compensation costs to employers and benefits paid to employees. We will now turn to each of these trends.

### A. The Long-Term Trend of Declining Rates of Occupational Injuries, Diseases and Fatalities

Table 1 shows the number and rates of occupational injuries, diseases and fatalities as nationwide from 1987-2000.

Table 1  
Private Industry Occupational Injury and Illness:  
Total Cases and Incidence Rates, 1987-2000

Year	Number of Cases (in millions)		Incidence Rate <sup>a</sup>	
	All Cases	Cases with Days Away from Work	All Cases	Cases with Days Away from Work
	(1)	(2)	(3)	(4)
1987	6.0	2.5	8.3	3.4
1988	6.4	2.6	8.6	3.5
1989	6.6	2.6	8.6	3.4
1990	6.8	2.6	8.8	3.4
1991	6.3	2.6	8.4	3.2
1992 <sup>b</sup>	6.8	2.3	8.9	3.0
1993 <sup>b</sup>	6.7	2.3	8.5	2.9
1994 <sup>b</sup>	6.8	2.2	8.4	2.8
1995 <sup>b</sup>	6.6	2.0	8.1	2.5
1996 <sup>b</sup>	6.2	1.9	7.4	2.2
1997 <sup>b</sup>	6.1	1.8	7.1	2.1
1998 <sup>b</sup>	5.9	1.7	6.7	2.0
1999 <sup>b</sup>	5.7	1.7	6.3	1.9
2000 <sup>b</sup>	5.7	1.7	6.1	1.8

<sup>a</sup> The incidence rate is the number of cases per 100 full-time workers.

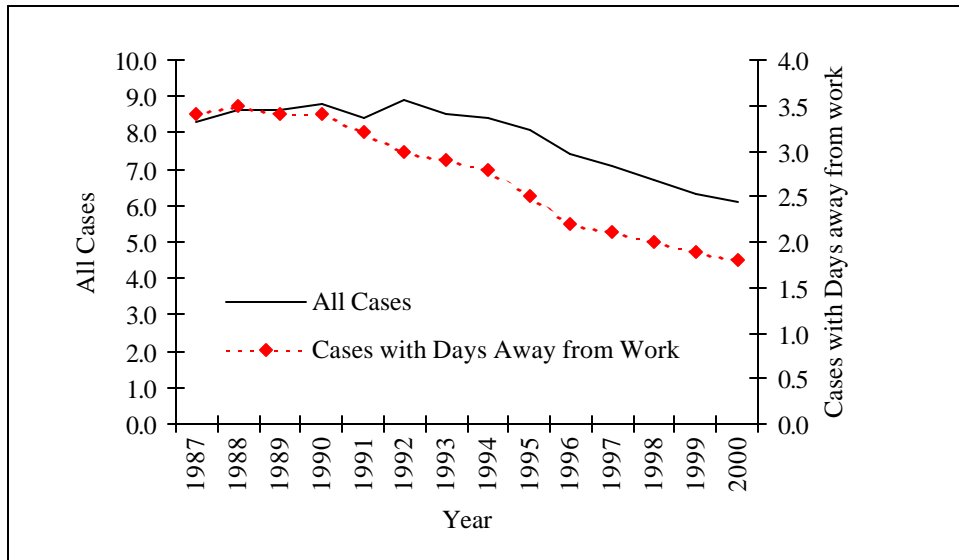
<sup>b</sup> Data for these years exclude fatal work-related injuries and illnesses.

Source: Workers' Compensation: Benefits, Coverage, and Costs, 2000 New Estimates, National Academy of Social Insurance, Table 14, p. 25.

Table 1 provides many important insights. First, column 1 shows that between 1987 and 1994 the number of occupational injuries and diseases increased from 6.0 to 6.8 million, and then declined to 5.7 million by 2000. Second, column 2 shows that the number of cases with days of missed work also declined during this period from about 2.5 million in 1987-1991 to 1.7 million in 1998-2000. Because the workforce grew substantially during this period, the rate of injuries and disease (per 100 workers) decreased even more rapidly. Columns 3 and 4 of Table 1 reveal that the rates of both claims and cases with lost days declined during this 14-year period. By 2000, the incidence rate for all cases decreased 31.5% from its 1992 peak. The incidence rate for cases with days away from work dropped even more sharply—by 48.6%—between its 1988 peak and 2000. While 3.4% of workers suffered an occupational injury or disease that required them to miss work in 1990, only 1.8% of workers experienced the same fate in 2000.

Figure 1 graphically depicts these trends.

Figure 1  
Incidence Rates for Private Industry Occupational Injury and Illness



Source: National Academy of Social Insurance, Workers' Compensation: Benefits, Coverage, and Costs, 2000 New Estimates, Table 14, p. 25.

Note: Rates are expressed per 100 full-time workers.

Table 2 provides data on occupational fatalities.

Table 2  
Number of Fatal Occupational Injuries,  
1992-2000

Year	Number of Fatal Injuries
1992	6,217
1993	6,331
1994	6,632
1995	6,275
1996	6,112
1997	6,238
1998	6,026
1999	6,023
2000	5,915

Source: National Academy of Social Insurance, *Workers' Compensation: Benefits, Coverage, and Costs, 2000 New Estimates*, Table 15, p. 26.

Since 1994, the number of fatal occupational injuries has decreased by 10.8%.<sup>16</sup>

The data from Tables 1 and 2 all point in the same direction: declining rates of occupational injuries, declining severity of injuries and declining numbers of occupational fatalities.<sup>17</sup> Collectively, they indicate that the pool of potential workers' compensation claims has been shrinking since 1994.

### *B. A Decline in the Number and Rate of Workers' Compensation Claims*

This decline in the injury rate has been accompanied by a corresponding decrease in the number

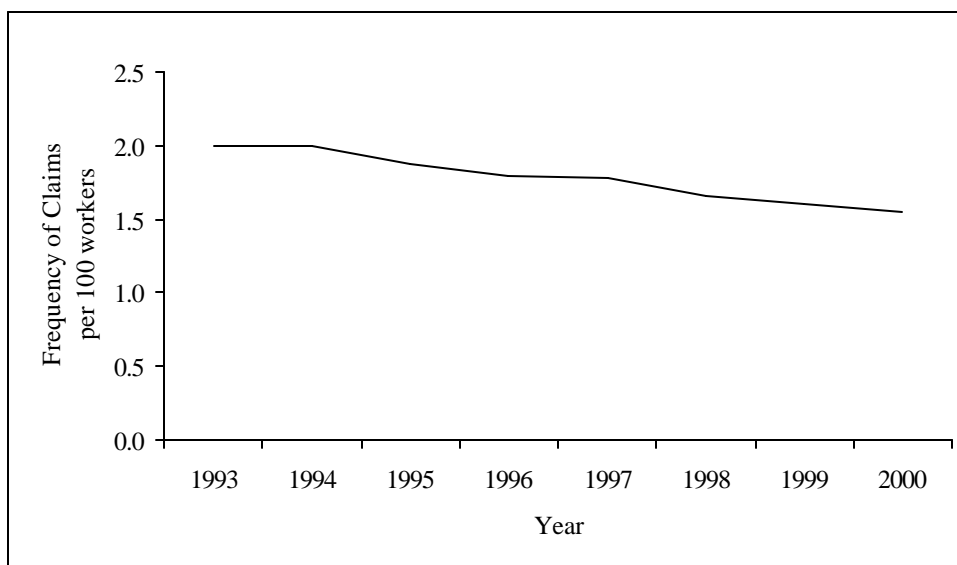
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<sup>16</sup>These figures do not include deaths caused by long-term occupational diseases. National Academy of Social Insurance, *Workers' Compensation: Benefits, Coverage, and Costs 2000 New Estimates* at p. 25 (June 2002).

<sup>17</sup>Among the reasons suggested for the decline in occupational injury rates are governmental work safety programs, such as OSHA, private risk management programs initiated by employers or their insurers, a shift in the economy from higher-risk manufacturing and industrial jobs to lower-risk service and technology jobs, and improvements in occupational safety technology, such as ergonomic designs, cordless tools and better materials. National Council on Compensation Insurance, *Georgia Workers' Compensation State Advisory Forum 7* (July 12, 2002). Others have suggested that "[i]t is also possible that some of the decline in injury rates is an indirect result of tighter eligibility standards for workers' compensation." National Academy of Social Insurance, *Workers' Compensation: Benefits, Coverage, and Costs, 2000 New Estimates* at p. 26 (June 2002).

and frequency of workers' compensation claims. The National Council on Compensation Insurance<sup>18</sup> reports that the number of workers' compensation claims fell by 7.8% nationally between 1993 and 1997, and states, "The Southeast (excluding Florida) stands out with above average improvement in claim frequency."<sup>19</sup> Georgia is reported to have a 15.5% reduction in the number of claims during this period.<sup>20</sup> When expressed in terms of the frequency of claims, the decline is even more dramatic. Georgia's claim frequency decreased 25.6% compared to the national rate of 1.8% over the same period.<sup>21</sup> Figure 2 shows that the frequency of claims in Georgia has continued to decline from 2 claims per 100 workers in 1992 to 1.5 claims per 100 workers in 2000.

Figure 2  
Frequency of Claims per 100 Workers,  
1993-2000



Source: National Council on Compensation Insurance, Georgia Workers' Compensation State Advisory Forum 7 (July 12 (2002).

<sup>18</sup>Christopher Poteet and Tony DiDonato, Analyzing the Decline in Claim Frequency, National Council on Compensation Insurance Issues Report at p. 29 (Spring 2001).

<sup>19</sup>Id., at p. 32.

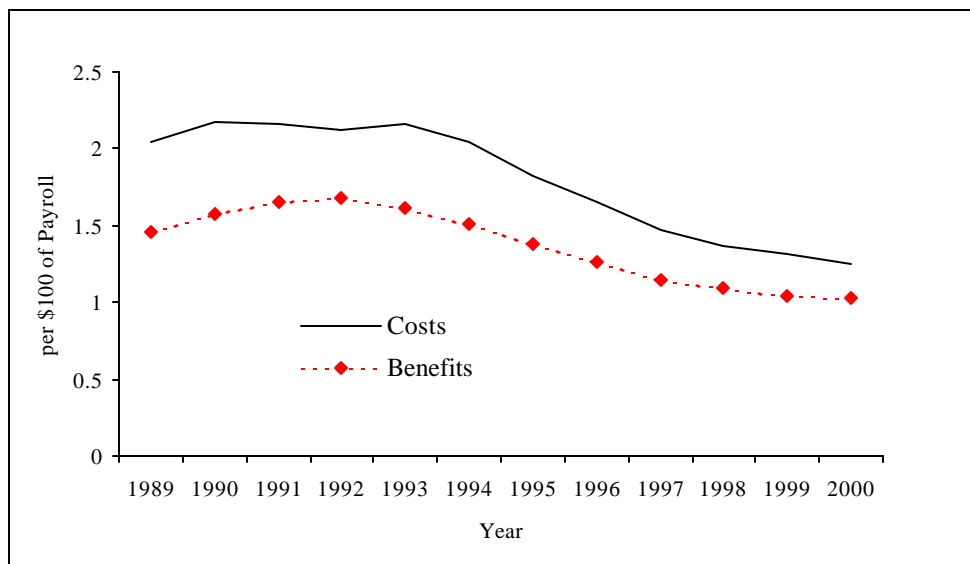
<sup>20</sup>Id.

<sup>21</sup>Id.

*C. A Decline in Workers' Compensation Costs to Employers and Benefits Paid to Employees*

Similarly, this decrease in the number and frequency of workers' compensation claims has been accompanied by a decline in costs to employers and benefits paid to employees, as shown in Figure 3.

Figure 3  
Workers' Compensation Benefits and Costs,  
1989-2000



Source: National Academy of Social Insurance, Workers' Compensation: Benefits, Coverage, and Costs, 2000 New Estimates, Table 14.

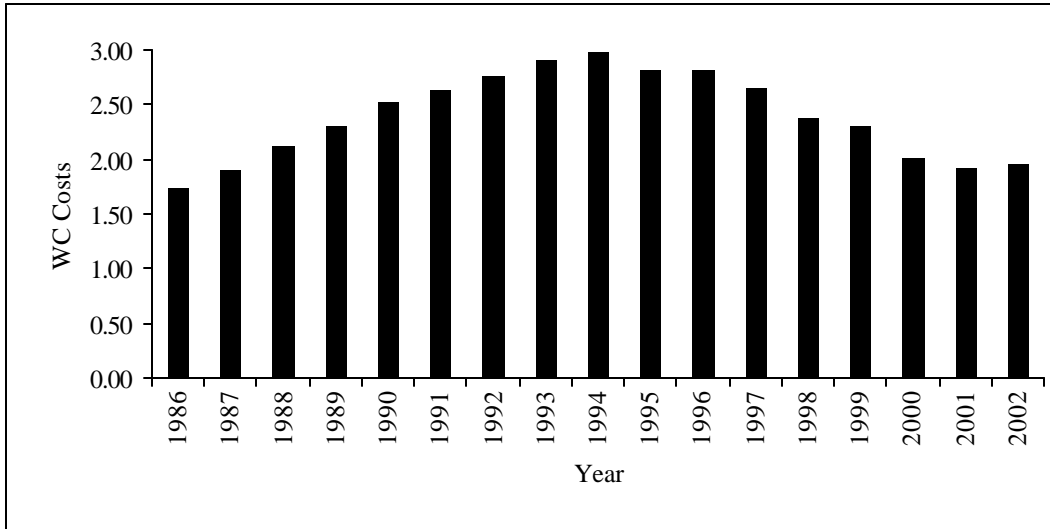
Employer costs peaked in 1990 and decreased by 42.7% by 2000. Benefits paid increased by 15.1% between 1989 and 1992, and decreased 38.7% between 1992 and 2000.

Employer costs<sup>22</sup> are often expressed in two ways: as a percentage of gross earnings or in dollars per hour worked. Figure 4 shows employer costs expressed as a percentage of gross earnings.

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<sup>22</sup>The term "costs" used in Figures 4 and 5 includes insurance costs. See John F. Burton, Jr., Workers' Compensation Costs for Employers: Divergent Trends for 2002, Workers' Compensation Policy Review, Vol. 2 Issue 3, p. 7 n. 1 (May/June 2002).

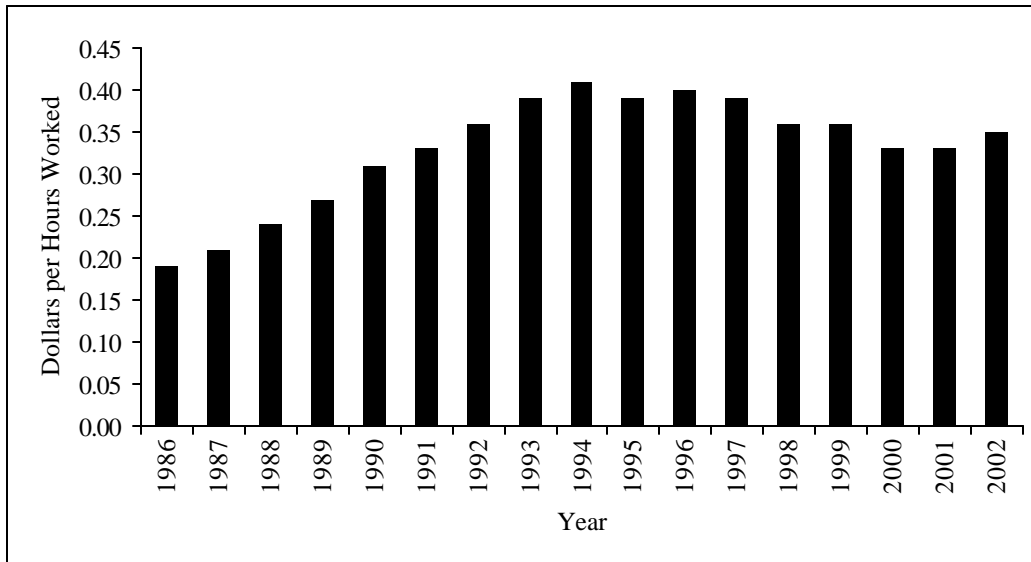
Figure 4  
 Workers' Compensation Costs as a Percentage of Gross Earnings,  
 Private Industry Employers,  
 1986-2002



Source: John F. Burton, Jr., Workers' Compensation Costs for Employers: Divergent Trends for 2002, Workers' Compensation Policy Review, vol. 2, issue 3, Figure A, p. 2.

Figure 5 plots employer costs expressed in terms of dollars per hour worked.

Figure 5  
 Workers' Compensation Costs for Private Industry Employees,  
 1986-2002 (In Dollars per Hour Worked)



Source: John F. Burton, Jr., Workers' Compensation Costs for Employers: Divergent Trends for 2002, Workers' Compensation Policy Review, vol. 2, issue 3, Figure D, p. 5.

Figures 4 and 5 provide four important insights. First, both measures indicate that workers' compensation costs increased substantially from the mid-1980s and peaked in 1994. In just eight years between 1986 and 1994, costs as a percentage of gross earnings increased by 71.8% and costs in dollars of hours worked increased 115.8%. Second, between 1994 and 2001, these costs decreased by 35.8% and 14.6%, respectively. Third, the recent pattern of decline in costs has ended, and a possible increase may have commenced. Employers' workers' compensation costs increased from 1.92% of gross earnings in 2001 to 1.96% in 2002. One important component of total costs is the cost of health care, whose annual rate of growth has been increasing since 1997.<sup>23</sup> Others have documented that costs since 2000 have increased due to a convergence of factors like rising claim costs, deregulated pricing, harder-to-obtain reinsurance, and potential workplace terrorism.<sup>24</sup> Fourth, while there have been substantial increases and decreases in workers' compensation costs during this period, the variation of workers' compensation costs as a percentage of gross earnings has been relatively stable. Over a 17-year period, employer workers' compensation costs ranged from a low of 1.74% to a high of 2.99%. For most of this period, employer costs ranged between 2 and 3% of gross earnings. Since 1990, employer costs expressed in terms of dollars per hour worked ranged from \$.31 to \$.41—a variation of only 10 cents per hour worked. Under either measure, employer costs are lower today than they were in the early 1990s.

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<sup>23</sup> The annual percentage change in the overall medical price index was 2.8% in 1997, 3.2% in 1998, 3.5% in 1999, 4.1% in 2000, 4.6% in 2001, and 4.7% in 2002 (United States Department of Labor, "Medical Care Index, U.S. City Average, Not Seasonally Adjusted", Series Id: CUUR0000SAM).

<sup>24</sup> Annmarie Geddes Lipold, "The Soaring Costs of Workers' Comp", *Workforce*, (February 2003), pp. 42-48.

### **III. BIG-PICTURE TRENDS IN WORKERS' COMPENSATION IN GEORGIA**

Georgia has experienced the same patterns as described in the preceding section. The State Board of Workers' Compensation reports reductions in the number of workers' compensation claims and in the aggregate amounts of benefits paid. Before discussing these patterns in detail, we briefly explain how the State Board of Workers' Compensation collected and reported its data.

Each year the Board issues an Annual Report that contains statistical information, some reported on a "calendar year" basis. For example, payments made in "medical only" claims are reported for the calendar year in which the payment was made. Other information is reported on an "accident year" basis. For example, indemnity benefits paid in 2000 for an accident that occurred in 1999 would be reported as a 1999 cost. Because medical and indemnity benefits frequently are paid for several years after the date of the accident, "accident year" data are revised annually. Thus, the amount of benefits paid for 1997 accidents as reported in the 1998 Annual Report will be less than the amount reported in the 1999 Annual Report, which will be less than the amount reported in the 2000 Annual Report, etc. The Annual Reports prepared by the State Board provide data from the current calendar year and the three preceding years. The most complete data are those reported four years after the accident year. Thus, the most complete information is for accident year 1997 as reported in the 2000 Annual Report.

Tables 3 and 4 summarize data in the Annual Reports of the State Board of Workers' Compensation. Table 3 contains data for the specified calendar year and covers years 1995-2000.<sup>25</sup> Table 4 reports data on a "four-year-lag-time" basis. That is, it contains cost information on accidents that

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<sup>25</sup>Changes in the way data were collected and reported preclude comparisons of calendar year data before 1995.

occurred in 1997 based on payments made through 2000.

Table 3  
Georgia Workers Compensation "At-A-Glance"  
1995-2000

	1995	1996	1997	1998	1999	2000
Created Cases	48,99148,	47,815	45,26045	44,717	44,15544	43,258
<u>Benefits (\$000s)</u>						
Indemnity Benefits	\$140,535	\$135,796	\$263,959	\$155,896	\$159,651	\$174,908
Medical Benefits <sup>a</sup>	\$161,795	\$162,247	\$247,899	\$163,096	\$169,779	\$172,981
<u>Other Benefits<sup>b</sup></u>	<u>\$9,064</u>	<u>\$11,393</u>	<u>\$18,597</u>	<u>\$11,798</u>	<u>\$11,563</u>	<u>\$11,160</u>
Total Benefits in Indemnity Claims	\$311,394	\$309,437	\$530,455	\$330,791	\$340,992	\$359,049
<u>Averages</u>						
Claim Cost	\$6,308	\$6,472	\$8,012	\$7,397	\$7,723	\$8,300
Lost Work Days	53	54	54	57	58	62
<u>Medical Only</u>						
Number	180,074	168,226	209,176	195,572	207,555	210,566
Amount (\$000s)	\$58.0	\$82.5	\$70.0	\$76.0	\$80.9	\$97.7
Total payments on all claims (in \$000s)	\$369.4	\$391.9	\$432.6	\$406.8	\$421.9	\$456.8

Source: Data from the Georgia State Board of Workers' Compensation Annual Reports (1996-2001), "At-A-Glance" pages.

Notes: <sup>a</sup> "Medical Benefits" calculates the sum of "Physicians Benefits", "Hospital", "Pharmacy Benefits", "Physical Therapy", "Chiropractic", and "Other"

<sup>b</sup> "Other Benefits" calculates the sum of "Rehabilitation", "Late Payment Penalties", "Assessed Attorney's Fees", and "Burial".

Table 4  
Georgia Workers Compensation "At-A-Glance"  
Four-Year Lag  
1992-1997

	1992	1993	1994	1995	1996	1997
Created Claims	53,774	53,527	54,306	51,110	49,376	46,695
<u>Benefits (\$000s)</u>						
Indemnity Benefits	\$416,393	\$398,396	\$402,780	\$378,975	\$364,461	\$385,080
Medical Benefits <sup>a</sup>	\$338,401	\$317,269	\$310,010	\$296,668	\$295,397	\$285,017
<u>Other Benefits<sup>b</sup></u>	<u>\$30,225</u>	<u>\$19,700</u>	<u>\$20,433</u>	<u>\$20,600</u>	<u>\$22,232</u>	<u>\$21,228</u>
Total Benefits in Indemnity Claims	\$785,018	\$735,365	\$733,223	\$696,243	\$682,091	\$691,325
<u>Averages</u>						
Claim Cost	\$14,598	\$13,738	\$13,501	\$13,622	\$13,814	\$14,805
Lost Work Days	180	161	104	102	100	106
<u>Medical Only</u>						
Number	255,074	250,647	168,862	180,071	168,226	209,176
Amount (\$000s)	\$81,494	\$135,099	\$46,105	\$57,961	\$82,480	\$69,979
Total payments on all claims (in \$000s)	\$866,512	\$870,463	\$779,328	\$754,204	\$764,571	\$761,304 <sup>c</sup>

Source: Data from the Georgia State Board of Workers' Compensation Annual Reports (1996-2001), "At-A-Glance" pages.

Notes: <sup>a</sup> "Medical Benefits" calculates the sum of "Physicians Benefits", "Hospital", "Pharmacy Benefits", "Physical Therapy", "Chiropractic", and "Other"

<sup>b</sup> "Other Benefits" calculates the sum of "Rehabilitation", "Late Payment Penalties", "Assessed Attorney's Fees", and "Burial".

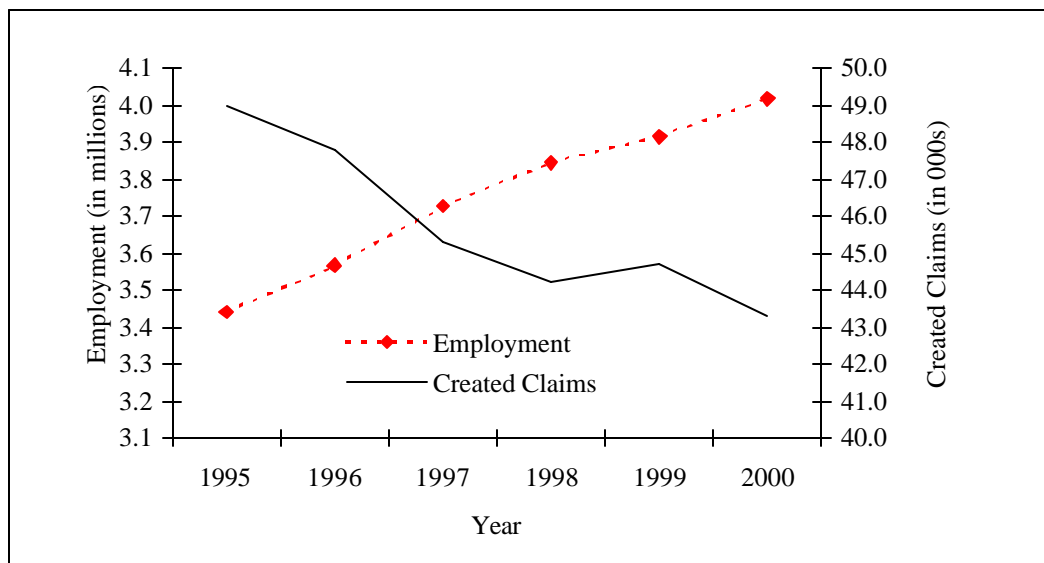
<sup>c</sup> This differs from the reported number in the 2001 edition in the "At-A-Glance" page. The correct number shown above was confirmed in emails from Pamela Carter and Carolyn Hall, both dated 31 Dec. 2002.

Table 3 provides more current, but necessarily incomplete, information. Table 4 provides more complete, but less current, information. Both tables show declining numbers of claims, slight increases in the average number of lost workdays and average costs per claim. Table 4 documents a marked decline in the aggregate amount of benefits paid.

### A. Declining Number of Claims

Tables 3 and 4 show that the number of created claims is decreasing. Table 3 documents a decline in the number of created claims each year from 1995 through 2000. Specifically, there were 5,733 fewer claims created in 2000 than in 1995. Table 4 shows the same pattern—there were 7,079 fewer claims created in 1997 than in 1992. Given the growth in employment during this same period, this decline in the number of created claims is all the more remarkable. Employment grew by 578,017 between 1995 and 2000.<sup>26</sup> Thus, there were 578,017 more Georgians working during the period in which the number of created workers' compensation claims *declined* by 5,733. Figure 6 illustrates that the number of workers' compensation claims decreased despite an increase in the number of people employed.

Figure 6  
Employment and Created Claims,  
1995-2000



Source: Claim data from the Georgia State Board of Workers' Compensation Annual Reports (1996-2001), "At-A-Glance" pages. Employment data from the Georgia Department of Labor.

<sup>26</sup>Georgia Department of Labor, Labor Force, Employment and Unemployment Data in Georgia, Quickstats (November 2002).

### *B. The Average Number of Lost Work Days*

One measure of the seriousness or severity of a workers' compensation claim is the average number of lost workdays. More lost workdays imply more severe injuries and greater costs. The two types of data show different trends in lost workdays. Table 3 (the one-year data) shows that the number of lost workdays increased from 53 in 1995 to 62 in 2000, an increase of 17%. In contrast, Table 4 (the four-year data) indicates that the average number of lost workdays declined dramatically from the early 1990s and has become more stable. The average number of lost workdays dropped from 180 in 1992 to 106 in 1997. Between 1994 and 1997 the average ranged between 100 and 106 lost workdays.

### *C. The Average Cost per Claim*

Table 3 reports that the average cost per claim was \$6,308 in 1995 and \$8,300 in 2000, an increase of 31.6% over the 5-year period. However, Table 4, which contains more mature data and thus a more complete picture, reveals a more stable pattern. The average cost per claim was \$14,598 in 1992 and \$14,805 in 1997, an increase in the average cost per claim of only \$207, or 1.4% over 5 years. This increase is quite modest compared to the 19.2% increase in Georgia's average weekly wage during the same period.<sup>27</sup>

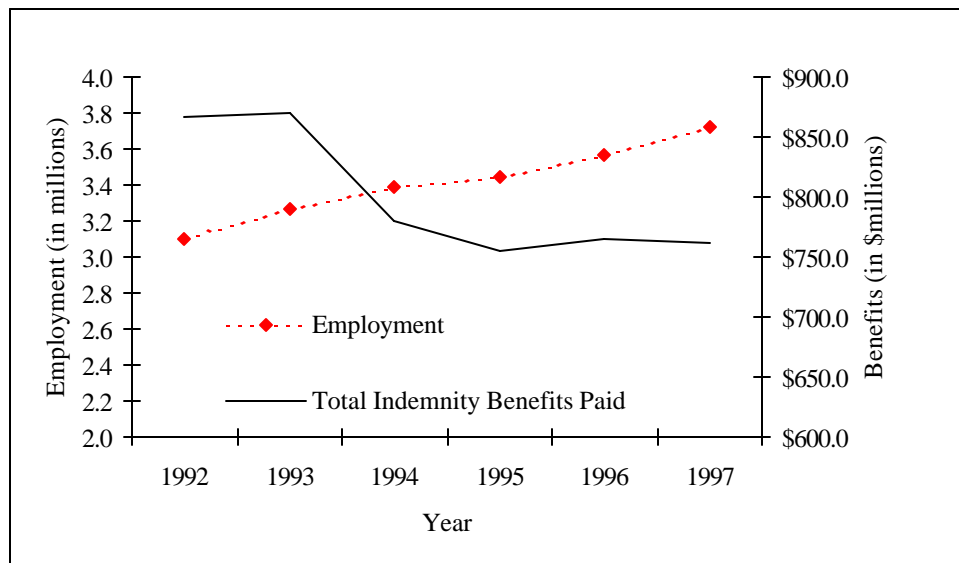
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<sup>27</sup>Georgia's average weekly wage increased from \$468 in 1992 to \$558 in 1997. Analysis by Taryn Trent, Georgia Department of Labor, at the request of the Commission.

#### D. A Decline in the Aggregate Payments in All Claims

Perhaps the most telling measure of costs is the aggregate payments made. Aggregate payments include benefits paid on indemnity claims as well as medical only claims. Table 4 reveals a dramatic drop in the aggregate total payments over time. The aggregate total payment for covered injuries occurring in 1992 was \$866.5 million, while the corresponding figure for 1997 claims was \$761.3 million. Thus, Georgia employers and their insurers paid \$105.2 million less for 1997 workplace injuries than they did for injuries occurring in 1992. This decline in aggregate payments undoubtedly is attributable to the decrease in the number of created claims during the same period. The decline in the aggregate payment is all the more remarkable because the number of covered employees increased substantially during this period, as illustrated in Figure 7.

Figure 7  
Employment vs. Total Indemnity Benefits Paid,  
1992-1997



Source: Claim data from the Georgia State Board of Workers' Compensation Annual Reports (1996-2001), "At-A-Glance" pages. Employment data from the Georgia Department of Labor.

## **IV. A COMPARISON OF WORKERS' COMPENSATION COSTS IN GEORGIA WITH COSTS IN OTHER STATES**

By several measures, Georgia workers' compensation costs compare favorably with those incurred by employers in other states, including our neighbors in the Southeast. Georgia enjoys a relatively low average total cost for "all claims paid" compared to other states. This is due largely to the exceptionally small percentage of claims paid in Georgia involving seven or more lost days of work. However, Georgia has a comparatively high average total cost for "all claims paid claims involving seven or more lost days of work."

### *A. Georgia Has a Comparatively Low Average "Cost per Worker"*

One way to compare costs is to divide the aggregate payout by the number of covered workers to produce an average cost per worker. Table 5 compares the average cost per worker for ten Southeastern states and the states with the highest and lowest average costs in the nation. The data reported in Table 5 are not adjusted for interstate differences in factors like self-insurance, wage levels, and injury and industry mix.

Table 5  
 Cost per Worker,  
 Southeastern States and States with the Highest and Lowest 1998 Average Cost,  
 Policy Years 1996 and 1998

Policy Year	1998 Ave. Cost per Worker (in dollars)	1996 Ave. Cost per Worker (in dollars)
Alaska	781	679
Florida	549	617
Alabama	447	472
Tennessee	396	340
North Carolina	357	267
Kentucky	332	354
South Carolina	329	278
Mississippi	314	307
Virginia	277	297
Georgia	273	299
Arkansas	212	186

Source: National Council on Compensation Insurance, Annual Statistical Bulletin, 2000 and 2002 Editions.

The first column of Table 5 indicates that the average cost per worker in 1998 ranged from a high of \$781 in Alaska to a low of \$273 in Arkansas. Georgia’s 1998 average cost is 9<sup>th</sup> out of the 10 Southeastern states, trailing only Arkansas, and its average cost is lower than that of its border states. Compared to Georgia, South Carolina’s cost was 20.5% higher, North Carolina’s was 30.8% higher, Tennessee’s was 45.1% higher, Alabama’s was 63.7% higher, and Florida’s was 101.1% higher. Measured in average cost per worker, Georgia ranked 40<sup>th</sup> of 46 states in 1998 and 28<sup>th</sup> of 44 states in 1996 (Appendix I contains the rankings of all surveyed states). Furthermore, Georgia’s average cost per worker decreased from \$299 in 1996 to \$273 in 1998.

*B. Georgia Has a Comparatively Low Average “Cost per Claim”*

Another point of comparison is the average cost per claim, which examines the costs of workers’ compensation claims in which payments were made. Table 6 compares the average cost per claim for ten

Southeastern states and the states with the highest and lowest average costs in the nation. The average cost per claim for every surveyed state is reported in Appendix II.

Table 6  
Cost per Claim,  
Southeastern States and the States with the Highest and Lowest 1998 Average Cost per Paid Claim,  
Policy Years 1994, 1996 and 1998

Policy Year	1998 Ave. Cost per Claim (in dollars)	1996 Ave. Cost per Claim (in dollars)	1994 Ave. Cost per Claim (in dollars)
New York	11,936	11,583	9,979
Florida	8,439	9,211	9,548
Alabama	6,991	6,560	5,586
North Carolina	6,609	4,774	4,119
South Carolina	5,709	4,421	4,308
Virginia	5,704	6,229	4,330
Tennessee	5,680	4,368	4,087
Georgia	5,461	5,206	5,377
Mississippi	4,420	4,076	3,770
Kentucky	4,219	4,015	4,478
Indiana	2,433	2,169	2,022

Source: National Council on Compensation Insurance, *Annual Statistical Bulletin*, 2000 and 2002 Editions.

Table 6 and Appendix II yield three observations. First, Georgia’s average cost per claim was low compared to both the Southeastern and all states. In 1998, Georgia’s average cost per claim was \$5,461 compared to New York, which had the highest average cost per claim at \$11,936, and Indiana, which had the lowest at \$2,433. In 1998, none of Georgia’s border states had lower average costs per claim, and Mississippi and Kentucky were the only states in the Southeast that had lower average costs than Georgia. Tennessee (4.0% higher), South Carolina (4.5% higher), North Carolina (16.4% higher), Alabama (28.0% higher), and Florida (54.5% higher) all had higher average costs per claim than Georgia. Second, Georgia’s overall average costs per claim stayed relatively constant during this period—going from \$5,377 in 1994 to \$5,461 in 1998. Third, while Georgia experienced relatively constant average costs during this period, most other states experienced increases. Thus, Georgia’s ranking in average costs dropped from 17<sup>th</sup> of 36

jurisdictions in 1994, to 21<sup>st</sup> of 43 in 1996, and 26<sup>th</sup> of 46 in 1998.

WCRI performed several “Benchmarks” studies in which it examined in great detail the workers’ compensation systems of participating states. The second Benchmark study was published in 2001 and included 8 states (California, Connecticut, Florida, Georgia, Massachusetts, Pennsylvania, Texas and Wisconsin). The third Benchmark study incorporates four additional states—Illinois, Indiana, North Carolina and Tennessee. The twelve states included in the most recent Benchmarks study account for more than 50% of the nation’s benefits payments.<sup>28</sup> The WCRI Benchmark studies provide improved interstate comparisons of workers’ compensation systems by adjusting for differences in industry and injury mix, wage levels and waiting periods. Table 7 reports the average total costs per all paid claims. It separately reports average total costs for “immature” (12 months after injury) and “mature” (36 months after injury) claims.

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<sup>28</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000 (2003).

Table 7  
Average Total Cost per All Paid Claims  
Accident Years 1997 and 1999

Year	Average Total Cost per Claim, Accident Year 1999	Average Total Cost per Claim, Accident Year 1997
IN	\$1,921	\$2,381
WI	\$2,182	\$2,812
GA	\$2,353	\$3,910
NC	\$2,373	\$3,690
CT	\$2,382	\$4,179
PA	\$2,449	\$3,942
MA	\$2,760	\$4,550
TN	\$2,772	\$4,368
FL	\$3,081	\$5,216
IL	\$3,376	\$5,192
CA	\$3,538	\$6,583
TX	\$4,513	\$5,797
12-State Median	\$2,604	\$4,274

Source: Workers Compensation Research Institute, Table 2.6 (2003)

Note: 1997 and 1999 claims as of mid-2000.

The Table 7 data indicate that Georgia has a lower average total cost per all paid claims than the 12-state median for both immature (by \$251) and mature claims (by \$364). Also, Florida’s average total cost for immature claims was 30.9% higher and its average total cost for mature claims was 33.4% higher than Georgia’s. Tennessee’s cost for immature claims was 17.8% higher and cost for mature claims was 11.7% higher than Georgia’s. North Carolina’s cost for immature claims was only \$20 (0.8%) more than Georgia’s, and its cost for mature claims was 5.6% lower than Georgia’s. The WCRI Benchmarks study further breaks down “average total costs” into component parts of “benefit payments,” “medical payments,” “indemnity payments,” and “benefit delivery expenses.” The average cost per claim in Georgia in each of these sub-categories was less than the 12-state medians.<sup>29</sup> These findings are consistent with those reported in WCRI’s earlier 8-state Benchmark study.<sup>30</sup>

<sup>29</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, Table 2.6.

<sup>30</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-1999, Tables 3.5, 3.6, 3.7, 3.8, and

The low average cost per claim in Georgia may be explained by the exceptionally low percentage of claims involving more than 7 days' lost time. Table 8 shows that Georgia has a very low percentage of claims in which the injured worker misses more than 7 days of work. Only 14-15% of workers' compensation claims in Georgia involve workers who miss more than 7 days of work compared to the 12-state median of 20%.

Table 8  
 Claims with More than 7 Days of Lost Time as a Percentage of All Paid Claims  
 Accident Years 1997 and 1999

Year	Percent of all paid claims with > 7 days lost time, Accident Year 1999	Percent of all paid claims with > 7 days lost time, Accident Year 1997
IN	13	15
GA	14	15
TN	15	17
NC	16	17
PA	17	19
WI	19	20
FL	20	20
IL	22	25
CA	23	24
CT	23	27
TX	25	25
MA	28	28
12-State Median	20	20

Source: Workers Compensation Research Institute, Table 2.15 (2003)

Note: 1997 and 1999 claims are as of mid-2000.

Tables 7 and 8 show that the states with the lowest average total costs per paid claim tend to be those with low percentages of claims with more than 7 days of lost time. WCRI offers two possible explanations for why Georgia has such a low percentage of such claims: first, the low maximum weekly benefit for total disability (discussed in Part VI) may create an incentive to return to work “prematurely”;

and second, injuries may be less serious in Georgia despite WCRI's efforts to control for injury mix.<sup>31</sup> A third explanation is that Georgia employers and insurers may have developed more effective "return to work" programs than those used in other states.<sup>32</sup> Whatever the explanation, the low percentage of claims with more than 7 days of lost work helps keep the average total cost per claim of all paid claims comparatively low.

*C. Georgia Has a Comparatively High Average Total Cost for Claims with Seven or More Days Lost Time*

The most serious workplace injuries cause the worker to miss substantial time from the job. To measure serious injuries, Table 9 examines data from the claims with seven or more days' lost time from work.

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<sup>31</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, 139 (2003).

<sup>32</sup>As discussed in Part VII C, Georgia allows injured workers to receive temporary disability benefits until they can return to work at or above the pre-injury wage or until the expiration of the statutory period. This facet of Georgia law creates an incentive for Georgia employers to find suitable employment for injured workers and may decrease the number of claims with seven or more days of lost time.

Table 9  
Average Total Cost per Claim with More than 7 Days of Lost Time  
Policy Years 1997 and 1999

Year	Average Total Cost per Claim, Accident Year 1999	Average Total Cost per Claim, Accident Year 1997
CT	\$8,275	\$14,104
MA	\$8,647	\$14,722
WI	\$8,878	\$12,186
IN	\$10,900	\$13,038
PA	\$11,205	\$18,591
NC	\$12,748	\$19,285
IL	\$12,836	\$18,656
FL	\$13,012	\$23,651
CA	\$13,091	\$25,235
GA	\$13,108	\$22,394
TN	\$14,670	\$22,815
TX	\$15,733	\$21,536
12-State Median	\$12,792	\$18,971

Source: Workers Compensation Research Institute, Table 2.8 (2003)

Note: 1997 and 1999 claims are as of mid-2000.

Table 9 yields three observations. First, there is considerable variation across the states in average cost per claim with more than seven days' lost time. Texas, the state with the highest cost for immature claims, has a cost that is \$7,458 (90.1%) higher than the costs of immature claims for Connecticut. For mature claims the difference between the states with the highest (California) and lowest (Wisconsin) costs is \$13,409, or 107.1%. This variation suggests that system features play a significant role in determining the level of medical and indemnity benefits paid to workers with similar injuries, working in similar industries, and earning similar wages. Second, the average total cost per claim with more than 7 days lost time in Georgia is higher than the 12-state medians for both immature (by \$316 or 2.5%) and mature claims (by \$3,423 or 18.0%).<sup>33</sup> Third, Georgia's average total cost for mature claims is \$421 (1.8%) lower than Tennessee's, \$836 (3.5%) lower than Florida's, and \$3,109 (16.1%) higher than North Carolina's.

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<sup>33</sup>The "average total cost" includes the benefit payments (which include medical and indemnity benefits) and benefit delivery expenses. Georgia had higher than median "average cost per claim" for each component of

#### *D. A Bottom Line Assessment of Workers' Compensation Costs in Georgia*

Georgia has relatively low overall workers' compensation costs per claim compared to other states, including our neighbors in the Southeast. Although the average cost per claim with more than seven days' lost time is higher, these claims account for approximately only 14-15% of total claims. The lower average total cost per claim for the other 85-86% of claims keeps Georgia's average cost per claim for all claims comparatively low. There is no indication in these data that workers' compensation costs place Georgia employers at a competitive disadvantage with employers in other states. Our conclusions here are reinforced by a recent report that lists Georgia as one of only seven states to receive a grade of "A" in controlling workers' compensation costs.<sup>34</sup>

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the average total cost. WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, Table 2.8.

<sup>34</sup>Work Loss Data Institute, State Report Cards for Workers' Compensation (February 24, 2003).

## V. INSURANCE PROFITABILITY

This section examines the insurance industry and has three objectives. First, it provides a broad overview of the insurance market in Georgia. Second, it compares insurance industry data by state between 1991 and 2000.<sup>35</sup> The third goal is to compare the profitability of the insurance industry in Georgia with the profitability of other sectors.

### A. *The Georgia Insurance Market*

In 2002, 324 insurance firms were in the workers' compensation market in Georgia.<sup>36</sup> The market was extremely competitive and very fragmented with a large number of firms. Only four firms had a market share of more than 2.5% (Builders Insurance with 7.4%, Commerce & Industry Insurance Co. with 3.5%, Travelers Indemnity Co. of IL with 3.4%, and Liberty Mutual Fire Insurance with 2.9%). Only 26 firms have a market share of more than 1%. The ten largest firms had a combined market share of 29.6% and the 25 largest firms had a combined market share of 48.9%.<sup>37</sup> In the past few years there has been some consolidation in the industry. For example, Legion (which was the second-largest firm in Georgia and had a 2001 market share of 6.1%) and Reliance are no longer writing workers' compensation insurance in Georgia because of regulatory actions taken in other states.

One important characteristic of the insurance industry is that it is procyclical (moves with the economy). So the industry tends to perform well during periods of economic growth and less well during

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<sup>35</sup>Robert E. Hoyt, Chairman of the Department of Legal Studies, Real Estate, and Insurance at the Terry College of Business, University of Georgia, used data from the National Association of Insurance Commissioners for this analysis.

<sup>36</sup>All market share information in this paragraph is provided by the "Georgia Worker's Compensation Market Share Report", Thompson Financial Information (2003).

economic slowdowns (see next sections B and C), as has been occurring in the last few years. Also, the al-Qaida terrorist attacks in September 2001 constituted a large negative capital shock to the insurance industry, which is still trying to resolve issues that relate to terrorism in the workplace.

The insurance industry differs from many industries in that it collects its revenues (in the form of premiums) up front, but does not incur many of its costs until later (sometimes years later) when it pays its benefits. Because of this delay between revenues and costs, investment income plays an important role in determining the profitability of insurance firms and the premiums they charge. When the return on investment is relatively high, customers benefit in the form of reduced premiums. Conversely, when the return on investment is relatively low, customers pay more for premiums. Consequently, premium prices can change even if the underlying likelihood of being injured and the cost of treating injured workers do not change. This quality of the insurance market helps to explain why insurance premiums have increased so rapidly in the last few years, as the high returns in the equity markets have significantly decreased.

Another important characteristic of this industry is that because of industry discounting, employers' premiums can change even though the manual rate approved by the insurance commissioner remained the same. The data show two important conclusions about discounting. First, discounts in Georgia are substantially more than they are nationwide. From 1991-2000 the annual average discount in Georgia was 17.7%, 3.9 percentage points higher than the average annual rate of 13.8%.<sup>37</sup> This gap between Georgia and the rest of the nation was especially large between 1998-2000, when Georgia's average was 33.7% compared to the national average of 21.5%. Second, the degree of discounting recently declined, indicating

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<sup>37</sup> These reported market shares do not include the shares of subsidiaries, which are tallied independently.

<sup>38</sup> National Council on Compensation Insurance, "The Impact of Discounting on Premium in Georgia" (2002) and National Council on Compensation Insurance, "The Impact of Discounting on Premium" (2002).

that employers are paying higher premiums even though the manual rate has not changed. Nationwide the discount was 23.4% in 1999, 19.2% in 2000, and 15.3% in 2001.<sup>39</sup> The change in Georgia started one year earlier but has not been as large as it is nationwide. In 1998, Georgia's average discount was 35.9%, the largest of the decade. In 1999 and 2000, Georgia's discount declined to 32.6 and 32.7%, respectively.<sup>40</sup>

### *B. Interstate Comparisons of Insurance Profitability and Performance*

The interstate comparisons report four measures—the Loss Ratio, Underwriting Profit, Net Income, and Return on Equity (ROE). The analysis includes the national average, Georgia, its five border states (Alabama, Florida, North Carolina, South Carolina, and Tennessee), and California, which has received a lot of attention for its changes in workers' compensation laws. To summarize, Georgia ranks very well compared to the other states and is either first or second in each of the categories. The trends of two other states—California and Florida—are important to examine. At the beginning of the period, California was consistently ranked as one of the top-performing states. However, the substantial regulatory changes it implemented during the 1990s harmed the industry, and by 2000 it was by far the worst in each of the four categories. In contrast, Florida went from being the poorest-performing state in the beginning of the period to one of the highest-performing states at the end. This section concludes by comparing the Return on Equity of Georgia's workers' compensation to other industries and shows that Georgia's workers' compensation carriers had a low Return on Equity relative to other industries.

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<sup>39</sup> National Council on Compensation Insurance, "The Impact of Discounting on Premium" (2002).

<sup>40</sup> National Council on Compensation Insurance, "The Impact of Discounting on Premium in Georgia" (2002).

Table 10 ranks the average Loss Ratio (the share of losses incurred<sup>41</sup> to direct premiums earned<sup>42</sup>) by state for the years 1991-2000. The top-performing state is South Carolina, which over this period had only 62.7 cents in losses incurred for every dollar earned in direct premiums. Georgia has the second-best average (63.7%) over this period and did well throughout the period.<sup>43</sup> The trends in Florida and California stand out. In 1991, Florida's loss ratio (106.3%) exceeded its direct premiums earned by 6.3%, by far the worst in that year. By 2000, Florida's improved its loss ratio to 64%, second only to Alabama's 63.5%. California experienced the exact opposite pattern, going from the second-best Loss Ratio (78.0%) in 1991 to 108.9% in 2000, which exceeded the next-worst state's experience (NC) by 36.2%. Last, in most states the loss ratio has increased significantly since 1997. Between 1997 and 2000, the loss ratio in Georgia increased by 75.8%, the largest change of all the states during this period. However, even after this growth in 2000, Georgia's loss ratio was 14.9% lower than the US average and was lower than all the comparison states except Florida and Alabama.

Table 10  
Loss Ratio by State 1991-2000,  
Ranked by Average

State	1991-2000	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
SC	62.7	72.6	58.4	62.9	55.1	53.5	63.1	44.5	66.4	75.9	74.6
GA	63.7	84.1	81.2	69.5	51.9	67.5	50.9	39.7	59.1	62.9	69.8
TN	67.5	85.7	84.2	73.9	66.5	59.0	48.2	47.1	87.2	52.4	70.8
NC	70.3	98.4	91.6	75.9	59.0	50.0	56.4	50.1	71.4	77.5	72.7
US	71.5	85.9	83.1	73.0	60.8	61.3	63.2	61.9	68.5	76.6	80.8
CA	80.7	78.0	79.1	65.1	53.1	61.4	82.4	84.6	88.6	105.7	108.9
AL	80.8	99.9	87.3	88.4	49.0	87.9	76.4	75.1	102.4	78.1	63.5
FL	81.5	106.3	119.7	99.2	72.3	91.6	73.7	53.5	69.7	64.6	64.0

<sup>41</sup>Losses incurred are the paid and reserved losses, which include all the losses actually paid for a given year and the reserved losses, which are estimates of how much the company will need to pay in the future for the given year's insurance.

<sup>42</sup>The measure of direct premiums earned includes premiums sold to buyers and excludes reinsurance.

<sup>43</sup>Georgia's loss ratio in 2001 was the lowest of the 36 states in which NCCI acts as the statistical agent. "On Workers' Compensation: Monthly Developments Around the Nation." Volume 13, Issue 1, March 2003, Table 1.

Source: “Profitability by Line by State in 2000”, National Association of Insurance Commissioners, November 2001  
 Note: The Loss Ratio is the share of losses incurred to direct premiums earned.

Table 11 reports underwriting profit (the share of underwriting profit<sup>44</sup> to direct premiums earned) by state from 1991-2000. During this period all states had negative underwriting profits on average, which were offset by the high returns on investment income that they received. Tennessee is the best performer at -3.5%, followed closely by Georgia with an average of only -4.9%. In 1991, Florida had the largest losses (-40.0%), but by 2000 had improved its underwriting profit to (-15.5%), which was third best in that year. Between 1997 and 2000, Georgia’s underwriting profit dropped 35.6 points from 16.6 to -19.9, the second-largest drop behind only South Carolina’s, which dropped 37.1 points during the same period. In 2000, Georgia’s underwriting profit was still 26.6% better than the national average. In 2000, Alabama, North Carolina, and Tennessee had higher underwriting profits than did Georgia.

Table 11  
 Underwriting Profit by State 1991-2000,  
 Ranked by Average

State	1991-2000	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
TN	-3.5	-15.5	-16.1	-4.0	0.3	6.9	17.2	15.9	-31.8	5.3	-13.6
GA	-4.9	-14.0	-16.6	-4.0	9.8	-8.9	7.7	16.6	-7.2	-13.6	-19.0
SC	-4.9	-1.6	6.4	-0.3	7.2	7.3	-10.8	12.3	-16.7	-28.0	-24.8
NC	-6.1	-30.3	-21.5	-4.2	10.7	19.4	9.5	-1.4	-11.4	-18.9	-12.6
US	-12.2	-19.4	-17.7	-7.0	1.1	-1.3	-5.7	-5.0	-15.5	-25.7	-25.9
AL	-22.5	-31.7	-20.9	-23.4	18.4	-29.5	-21.7	-28.3	-51.0	-27.0	-9.7
CA	-25.0	-15.9	-17.4	-0.7	0.9	-12.2	-29.4	-26.4	-35.3	-56.6	-56.6
FL	-27.0	-40.0	-63.2	-39.8	-13.1	-38.3	-21.3	0.4	-21.6	-17.4	-15.5

Source: “Profitability by Line by State in 2000”, National Association of Insurance Commissioners, November 2001  
 Note: Underwriting Profit is the share of underwriting profit to direct premiums earned.

Table 12 lists the Net Income (the profit on insurance transactions<sup>45</sup> divided by direct premiums earned) by state. Georgia had the best average Net Income from 1991 to 2000, receiving 10.2 cents in

<sup>44</sup>Underwriting profit includes losses incurred and a broader range of expenses (like operating expenses and commissions), but excludes investment income.

<sup>45</sup>Profit on insurance transactions includes investment income.

profit from insurance transactions for every dollar of direct premiums received. Compared to the experience of other states, Georgia's record was more consistent throughout the period. California, which performed most poorly, was the only state that had a negative average Net Income (-2.3%) during the period. By this measure Georgia's post-1997 profit dropped 21.7 points, the largest drop in the group. In the last year of the period Georgia's net income was more than twice the national average, and ranked behind Florida, North Carolina, and Tennessee.

Table 12  
Net Income by State 1991-2000,  
Ranked by average

State	1991-2000	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GA	10.2	1.1	1.6	10.8	18.9	8.1	18.7	25.0	10.8	3.4	3.3
TN	8.6	-1.0	-0.3	8.3	8.9	13.7	20.3	20.9	-6.8	15.3	6.7
SC	8.0	9.1	15.8	10.4	14.0	15.0	3.3	19.7	1.8	-6.9	-1.8
NC	7.9	-9.2	-1.3	9.7	17.0	24.8	17.7	11.5	4.2	-0.9	5.9
US	7.4	-0.3	3.2	9.8	13.1	14.0	12.1	14.3	7.0	-1.0	1.4
AL	5.1	-7.2	1.1	1.8	26.1	1.6	11.0	3.3	-10.7	3.5	20.7
FL	0.7	-6.6	-15.7	-0.9	7.7	-6.8	2.5	17.5	1.4	2.3	5.4
CA	-2.3	0.1	0.6	10.6	10.8	8.3	-1.7	-0.4	-8.3	-22.9	-20.5

Source: "Profitability by Line by State in 2000", National Association of Insurance Commissioners, November 2001  
Note: Net Income is the ratio of direct premiums earned to profit on insurance transactions.

Table 13 ranks the Return on Equity (percent return on net worth divided by total net worth) by state for the years 1991-2000 by the average ROE over this period. In each year throughout the period Georgia is one of the best performers, with a relatively high return on equity. Georgia's overall average is 11.1%, second only to South Carolina's 11.3%. As is true for the other measures, California performed well at the beginning of the decade, but was the worst performer in every year from 1996 to 2000. In 1999 and 2000, California was the only state that had negative returns on equity, at -6.7% and -5.3%, respectively. This table also shows that Georgia experienced the largest decreases (12.1 points) in ROE between 1997 and 2000. In 2000, Georgia's return on equity was slightly higher than the national average

and greater than only South Carolina and California.

Table 13  
Return on Equity by State 1991-2000,  
Ranked by average

State	1991-2000	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
SC	11.3	15.0	20.8	14.3	14.8	14.8	6.5	15.9	5.6	0.9	3.9
GA	11.1	6.0	6.9	13.4	17.4	9.8	16.0	18.6	9.9	6.2	6.5
TN	10.6	3.7	5.3	12.7	11.2	14.6	18.8	18.1	1.6	12.2	8.1
US	10.0	4.9	8.6	13.3	14.4	14.3	12.4	12.8	8.8	4.5	6.0
NC	9.6	-4.8	4.0	12.6	17.3	21.7	15.8	11.1	7.0	3.9	7.8
AL	7.4	-1.7	6.2	6.0	22.4	5.4	9.4	6.8	1.1	6.1	12.4
FL	5.0	0.1	-4.0	4.4	9.8	0.4	6.1	13.7	5.8	5.7	7.8
CA	4.8	5.2	6.1	15.3	13.7	10.2	3.9	4.9	1.0	-6.7	-5.3

Source: "Profitability by Line by State in 2000", National Association of Insurance Commissioners, November 2001

Note: Return on Equity is the percent of net worth to return on net worth.

The most recent rate filings by NCCI confirm that workers' compensation remains a profitable line of insurance in Georgia. NCCI has a pending rate request in Georgia that would decrease rates by 6.7%. In states that border Georgia, NCCI recommends rate decreases in Alabama (-7.5%), North Carolina (-2.0%) and Tennessee (-2.7%); and rate increases in Florida (+7.6%) and South Carolina (+22%).<sup>46</sup>

### C. Comparing Profitability in the Insurance Sector with the Profitability of Other Industries

It is also helpful to compare the insurance industry's experience in Georgia with the experiences of other industries during the last decade. Figure 8 compares the Return on Equity in Georgia to the Return on Equity of other industries. Diversified Financial Organizations, Commercial Banks, and the Fortune 500 are the highest-performing sectors, and in 2000 have Returns on Equity of about 22%, 17% and 15%, respectively. The Electric and Gas Utilities sector is the most stable performer, both starting and finishing the decade with a Return on Equity of about 12%. The National and Georgia workers' compensation sectors

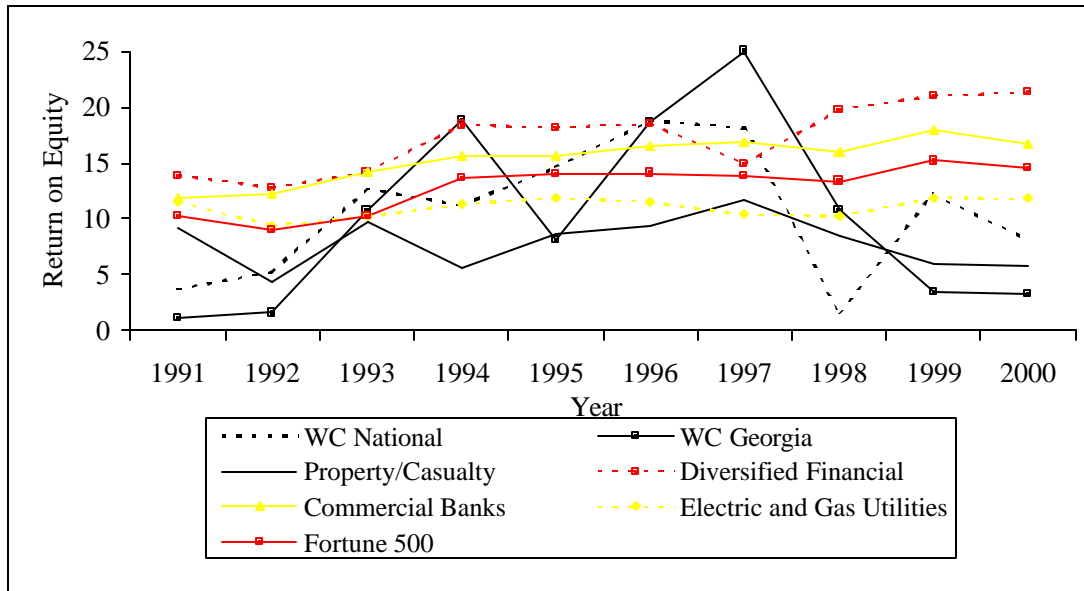
<sup>46</sup>National Council on Compensation Insurance, Status of Rate Revisions (January 24, 2003).

start the period with the lowest Returns on Equity (about 6%), and are typically in the middle of the pack in the middle of the decade. In 1999 and 2000, the last two years of the sample, the Georgia workers' compensation insurance industry exhibits the lowest Returns on Equity of all the categories. This figure clearly reflects the procyclical nature of the insurance industry as its ROE was very low at the beginning and end of the period when there were economic slowdowns and grew quickly during the middle part of the decade when returns on investments were relatively high. All property and casualty insurance lines (measured by Generally Accepted Accounting Principles) consistently exhibited the lowest Return on Equity. Recent industry reports indicate that the ROE for property and casualty insurance, in general, and workers' compensation, in particular, remains low compared to the ROE in other industries.<sup>47</sup>

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<sup>47</sup>Insurance Information Institute, *Workers Compensation: The Industry's Quiet Crisis? An Overview and Outlook for Workers Compensation Markets Today* (April 24, 2003).

Figure 8  
Return on Equity by Industry,  
1991-2000



Source: Insurance Information Institute Fact Books 1995 and 2002.

To conclude, during the 1990s, Georgia's workers' compensation performed well relative to other states. In contrast to the profiles of some states, especially Florida and California, Georgia's profitability measures were relatively stable throughout the decade. One concern, however, is that between 1997 and 2000, Georgia's rates of change in loss ratio, net income, and return on equity were the worst of all the included states, and Georgia experienced the second-largest decrease in underwriting profit. However, even with these changes, Georgia outperformed the national average in each of the four profitability measures for each year between 1997 and 2000. Georgia also performed well compared to other states in each measure in 1997-1999. Four states outperformed Georgia in underwriting profits and return on equity in 2000, and three states outperformed Georgia in net income and loss ratios in 2000. Compared to other industries, Georgia workers' compensation had Returns on Equity that were quite low, and exhibited much greater variance than the more consistent annual measures reported in other sectors.

## **VI. ARE INDEMNITY BENEFITS IN GEORGIA ADEQUATE TO PROTECT INJURED WORKERS AND THEIR FAMILIES?**

Indemnity (income) benefits are intended to protect workers and their families from the catastrophic economic consequences of workplace injuries and fatalities. The amount of weekly indemnity benefits paid to an injured worker commonly is calculated in terms of a percentage of that worker's average weekly wage and is subject to a statutorily defined maximum or ceiling. In many states injured workers receive two-thirds of their average weekly wage but no more than a specified percentage of the state's average weekly wage.<sup>48</sup> Whether a state's workers' compensation system is providing adequate income protection to injured workers generally depends on the ceiling (or cap) placed on recovery. The data indicate that Georgia workers are not provided as much income protection as their counterparts in other states.

### *A. Georgia Is One of Only a Few States That Sets a Maximum Recovery for Indemnity Benefits at Less than Two-Thirds of the State's Average Weekly Wage*

Forty-three states set the maximum indemnity benefit as a percentage of the state's average weekly or monthly wage. Thirty-three of these states have a cap of 100% or more of the state's average weekly wage for temporary total disability.<sup>49</sup> Forty-four states set their maximum award for permanent total

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<sup>48</sup> In discussions of workers' compensation benefits, there has been some disagreement about whether to use the state average weekly wage for all workers or to use the state average weekly wage excluding federal employees, because the state's workers' compensation laws do not cover federal employees. To determine the significance of this difference we requested the Georgia Department of Labor to calculate the average weekly wage in two ways—including and excluding federal employees—for the period 1980 to 2000. During this twenty-one-year period, average wages that covered federal workers were between \$4 and \$6 higher than average wages excluding federal workers. This paper reports the state average weekly wage for all employees.

<sup>49</sup>U.S. Department of Labor, Employment Standards Administration, Office of Workers' Compensation Programs, State Workers' Compensation Laws Table 6 (January 2002).

disability by reference to the state’s average weekly or monthly wage. Thirty-one of these states set the cap at 100% or more of the state’s average weekly or monthly wage.<sup>50</sup> Georgia is one of only a few states that use a fixed cap. Currently the maximum benefit an injured worker can receive is \$400 per week.<sup>51</sup> According to the Georgia Department of Labor, the state’s average weekly wage for 2000 was \$657.<sup>52</sup> Thus, the most an injured Georgia worker can receive in indemnity benefits is 60.8% of the state’s average weekly wage. Table 14 compares the cap on indemnity benefits in Georgia with those in 11 southern states.

Table 14  
Statutory Cap as a Percentage of Average Weekly Wages  
Southeastern States

Year	Statutory Cap as a Percentage of Average Weekly Wage	Cap on Weekly Indemnity Benefits (in Dollars)	Average Weekly Wage
North Carolina	110%	\$709.00	\$654.00
Alabama	100%	\$531.00	\$531.00
Florida	100%	\$587.00	\$587.00
Kentucky	100%	\$551.00	\$551.00
South Carolina	100%	\$549.42	\$549.42
Tennessee	100%	\$581.00	\$581.00
Virginia	100%	\$671.00	\$671.00
Arkansas	85%	\$425.00	\$500.00
Louisiana	75%	\$402.00	\$536.00
Mississippi	66.67%	\$318.00	\$477.00
<b>Georgia</b>	<b>60.8%</b>	<b>\$400.00</b>	<b>\$657.00</b>

Source: The information on the respective state statutory caps and caps as a percent of the state average weekly wage is from the U.S. Department of Labor, Employment Standards Administration, Office of Workers’ Compensation Programs, State Workers’ Compensation Laws Tables 6 and 7 (January 2002).

The state average weekly data came from websites and telephone contacts in the state Departments of Labor.

Georgia is the only southern state that does not provide income protection of at least two-thirds of the state’s average weekly wage. Seven of the other ten southern states place the cap at 100% or more of the state’s average weekly wage.

<sup>50</sup>U.S. Department of Labor, Employment Standards Administration, Office of Workers’ Compensation Programs, State Workers’ Compensation Laws Table 7 (January 2002).

<sup>51</sup>O.C.G.A. section 34-9-261.

<sup>52</sup>State average weekly wage data provided by Taryn Trent, Georgia Department of Labor, at the request

*B. The Current Cap On Indemnity Benefits Adversely Affects Approximately One-Third Of Georgia Claimants*

At the request of the Commission, the State Board undertook to determine how many claims are adversely affected by the cap and in which sectors of the economy those workers were employed. Table 15 summarizes these data.

Table 15  
Maximum Comp/Non Max Comp by SIC Code,  
1997-2001

Year	Number of Claims Paid at Statutory Cap	Number of Claims Paid Below the Statutory Cap
Manufacturing	10,379	16,278
Transport/Communications	9,402	6,450
Service	6,592	20,730
Construction	6,047	9,121
Government	4,403	9,256
Retail	2,734	16,140
Wholesale	1,849	3,129
Finance/Insurance/Real Estate	624	1,036
Agriculture/Fish/Forest	389	1,410
Other	15	29
Total	42,434	83,579
Percentage	33.67%	66.32%

Source: Georgia State Board of Workers' Compensation, "Compensation Paid at the Statutory Cap"

Table 15 reveals that approximately one-third of indemnity claims paid between 1997 and 2001 were paid at the statutory maximum. These claimants would have received more benefits if the cap had been calculated in terms of at least two-thirds of each state's average weekly wage. It is impossible to calculate precisely how much more these workers would have received because the wages of individual claimants are not reported if the claim is paid at the statutory maximum. However, these injured workers clearly would have received greater income protection if Georgia employed the same standard for calculating maximum indemnity benefits as used in every other southern state. Table 15 also shows that the sector of the economy

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of the Commission.

in which these workers were employed. Not surprisingly, the largest number of claims paid at the statutory maximum (10,379) involves workers employed in manufacturing. The next largest groups are transportation, service, construction, and government.

*C. Georgia Is One of Only a Very Few States That Do Not Index Their Maximum Weekly Indemnity Benefits*

In forty-four states and the District of Columbia, the maximum weekly indemnity benefit payable is adjusted annually by reference to some index.<sup>53</sup> The most common index is the state's average weekly wage. Indexing automatically adjusts the maximum benefits without legislation, depending on what happened to the state's average weekly wage in the preceding year. Georgia is one of a very few states in which specific legislation is required to adjust the level of income protection. In fact, Georgia is the only southern state that does not index its maximum weekly indemnity benefit. The past practice in recent years of legislatively enacted \$25 incremental increases in the maximum indemnity benefit has fallen short of providing Georgia workers with weekly income protection equal to that provided in sister states.

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<sup>53</sup>U.S. Department of Labor, Employment Standards Administration, Office of Workers' Compensation Programs, State Workers' Compensation Laws Table 10 (January 2002).

## **VII. WHY ARE GEORGIA’S AVERAGE COSTS FOR CLAIMS WITH SEVEN OR MORE LOST DAYS COMPARATIVELY HIGH WHEN THE CAP ON WEEKLY INDEMNITY BENEFITS IS ONE OF THE LOWEST IN THE NATION?**

Part IV stated that the average cost per claim with seven or more lost days is higher in Georgia than in many states. Part VI documented that Georgia has one of the lowest caps on weekly indemnity benefits in the nation. How can income benefits be low and average costs high for this category of claims?<sup>54</sup> What explains this apparent anomaly? The Commission acknowledges that it does not have a definitive answer to these questions. However, we have identified some variables that may provide insight.

### *A. Duration of Temporary Total Disability Benefits*

The duration of benefits is one important reason why Georgia’s weekly income benefits are comparatively low and overall costs are comparatively high. Table 16 compares the average duration of temporary total disability income benefits for claims involving seven or more days of lost time in 12 states.

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<sup>54</sup>It bears reminding that claims with seven or more days’ lost time account for only 14-15% of the total claims in Georgia. See Table 8.

Table 16  
Average Duration of Temporary Disability,  
Claims with More than 7 Days of Lost Time  
Accident Years 1997 and 1999

Year	Average Number of Weeks of TD Benefits; Accident Year 1999	Average Number of Weeks of TD Benefits; Accident Year 1997
WI	8	9
IL	11	11
TN	11	11
IN	11	12
CT	11	14
FL	13	16
GA	13	20
NC	13	16
PA	13	23
MA	14	23
CA	16	23
TX	17	20
12-state Median	13	16

Source: Workers Compensation Research Institute, Table 2.15 (2003)

Note: 1997 and 1999 claims are as of mid-2000.

These data reveal that for immature claims the average Georgia worker who misses seven or more days of work receives temporary total disability benefits for about the same period of time as the 12-state median. However, for the mature claims the duration of Georgia claims is 20 weeks compared to the median of 16 weeks. A subsequent study by WCRI, discussed in section C below, reinforces the suggestion made here that the duration of temporary total disability awards in Georgia is a factor that helps explain why the average total cost for claims with 7 or more lost days is comparatively high despite a low cap on weekly indemnity benefits.

*B. Claims with Seven or More Days' Lost Time That Include Payments for Permanent Partial Disability*

WCRI characterizes as “permanent partial disability” (PPD) all claims settled by a lump-sum

payment. All payments made pursuant to a lump-sum settlement are treated as payments for PPD. According to WCRI, this is a standard convention that it applies to data from all states. Several members of the Commission maintain that this standard does not accurately describe practices in Georgia. That is, both claimant and defense attorneys dispute that all moneys paid pursuant to a lump-sum settlement are paid for PPD. In fact, they maintain that payments for PPD may account for only a small portion of most lump-sum settlements. The discrepancy between Georgia practices and the standard convention employed by WCRI may produce an overestimation of the number and costs of PPD claims in Georgia. With this important caveat in mind, we turn to WCRI data on PPD claims.

WCRI reports that approximately 25% of immature and 44% of mature claims include payments for PPD.<sup>55</sup> These percentages are in line with patterns in other states.<sup>56</sup> Table 17 shows that the average total cost for PPD claims with more than seven days of lost time is comparatively high in Georgia.

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<sup>55</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000 Tables 2.10 and 2.11 (2003).

<sup>56</sup>The twelve-state medians are 21% and 43%, respectively. WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000 Tables 2.10 and 2.11 (2003).

Table 17  
Average Benefit Payment per Permanent Partial Disability Claim  
with More than 7 Days of Lost Time  
Accident Years 1997 and 1999

State	Average Benefit Payment per Claim; Accident Year 1999	Average Benefit Payment per Claim; Accident Year 1997
CT*	\$14,349	\$24,835
IL**	\$15,190	\$23,577
NC**	\$16,495	\$25,506
WI**	\$17,058	\$26,891
FL*	\$17,137	\$30,931
IN*	\$17,804	\$24,456
<b>GA*</b>	<b>\$18,042</b>	<b>\$33,082</b>
TX*	\$18,703	\$30,658
CA**	\$18,774	\$34,424
TN**	\$29,122	\$37,196
10-State Median	\$17,470	\$28,774

Source: WCRI, CompScope™ Benchmarks: Multistate Comparisons, Tables 2.10 and 2.11 (2003).

Note: 1997 and 1999 claims as of mid-2000.

\* PPD based on impairment only.

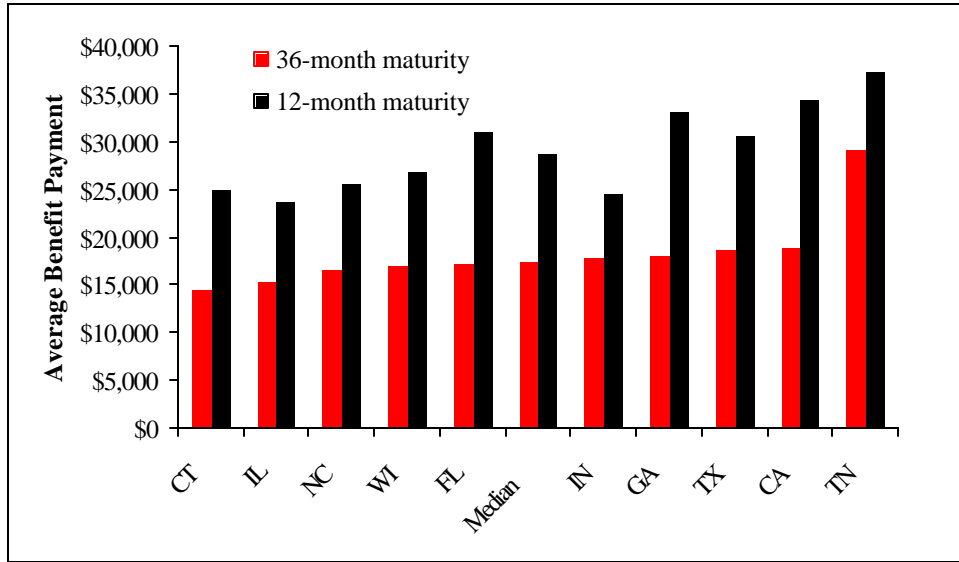
\*\* PPD based on impairment and other factors.

The average total cost in Georgia is \$572 higher for immature claims and \$4,308 higher for mature claims than the 10-state medians.<sup>57</sup> Figure 9 graphically depicts the differences among the ten states.

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<sup>57</sup>Tables 17-19 report 10-state medians instead of 12-state medians used in other tables because WCRI did not include two states (Pennsylvania and Massachusetts) in these calculations. These two states were excluded because they employ a fundamentally different approach in determining PPD awards.

Figure 9  
 Average Benefit Payment per Permanent Partial Disability Claim  
 with More than 7 Days of Lost Time  
 Accident Years 1997 and 1999



Source: WCRI, CompScope™ Benchmarks: Multistate Comparisons, Tables 2.10 and 2.11 (2003).

Note: 1997 and 1999 claims as of mid-2000.

CT, FL, GA, IN, and TX PPD data are based on impairment only.

CA, IL, NC, TN, and WI PPD data are based on impairment and other factors.

The primary components of the “average total cost” are medical and indemnity benefits. The average medical benefit in this category of claim was actually lower in Georgia than in most of the comparison states.<sup>58</sup> However, Table 18 shows that the average indemnity payment for such claims was higher than in most of the comparison states.

<sup>58</sup>The average medical payment per PPD claim with seven or more lost work days in Georgia was \$6,873 for immature claims and \$12,591 for mature claims. The corresponding 10-state medians were \$7,973 and \$12,598, respectively. WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000 Tables 2.10 and 2.11 (2003).

Table 18  
Average Indemnity Payment per Permanent Partial Disability Claim  
with More than 7 Days of Lost Time  
Accident Years 1997 and 1999

State	Average Indemnity Payment per Claim; Accident Year 1999	Average Indemnity Payment per Claim; Accident Year 1997
WI**	\$6,998	\$13,177
IN*	\$7,700	\$10,286
CT*	\$8,439	\$14,887
TX*	\$8,955	\$14,605
IL**	\$9,131	\$15,000
FL*	\$9,704	\$19,959
CA**	\$10,261	\$21,819
GA*	\$11,169	\$20,491
NC**	\$11,240	\$16,822
TN**	\$18,485	\$24,517
10-State Median	\$9,417	\$15,911

Source: WCRI, CompScope™ Benchmarks: Multistate Comparisons, Tables 2.10 and 2.11 (2003).

Note: 1997 and 1999 claims as of mid-2000.

\* PPD based on impairment only.

\*\* PPD based on impairment and other factors.

The average indemnity payment per PPD claim with more than 7 days of lost time was \$1,752 higher in Georgia than the 10-state median for immature claims and \$4,580 higher for mature claims.

Table 19 reveals that the average payment for the PPD component of indemnity benefits for such claims is higher in Georgia than in many of the comparison states.

Table 19  
Average Permanent Partial Disability Payment per PPD Claim  
with More than 7 Days of Lost Time  
Accident Years 1997 and 1999

State	Average PPD payment per Claim; Accident Year 1999	Average PPD payment per Claim; Accident Year 1997
WI**	\$3,509	\$7,752
CA**	\$4,195	\$11,997
TX*	\$4,323	\$6,516
CT*	\$4,673	\$9,448
IN*	\$4,742	\$5,319
FL*	\$5,503	\$13,410
IL**	\$6,993	\$11,355
GA*	\$8,072	\$14,405
NC**	\$8,525	\$11,599
TN**	\$15,001	\$20,207
10-State Median	\$5,122	\$11,477

Source: WCRI, CompScope™ Benchmarks: Multistate Comparisons, Tables 2.10 and 2.11 (2003).

Note: 1997 and 1999 claims as of mid-2000.

\* PPD based on impairment only.

\*\* PPD based on impairment and other factors.

WCRI reports that the average PPD payment for both immature and mature claims is more than \$2,900 higher than the 10-state median.

The final bit of information regarding this category of claims concerns lump-sum settlements. A higher percentage of claims in Georgia are resolved by a lump-sum settlement than in many of the comparison states. In Georgia, 10% of the immature claims and 24% of the mature claims were resolved by lump-sum settlements compared to the 12-state medians of 7% and 20% respectively.<sup>59</sup> Table 20 reveals that the average amount paid in a lump-sum settlement in Georgia is \$1,991 higher than the 12-state median for immature claims, and \$2,558 higher for mature claims.

<sup>59</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000 Table 2.12 (2003).

Table 20  
Average Lump-Sum Payments per Claim  
with More than 7 Days of Lost Time and a Lump-Sum Settlement  
Accident Years 1997 and 1999

State	Average LS payment per claim; Accident Year 1999	Average LS payment per claim; Accident Year 1997
WI	\$3,743	\$7,034
TX	\$4,648	\$5,213
CT	\$4,878	\$9,548
IN	\$5,413	\$5,607
CA	\$6,304	\$10,368
FL	\$7,611	\$16,029
MA	\$8,136	\$15,360
IL	\$9,110	\$15,162
NC	\$9,190	\$12,104
GA	\$9,865	\$16,191
PA	\$12,875	\$28,235
TN	\$15,479	\$18,314
12-State Median	\$7,874	\$13,633

Source: WCRI, CompScope™ Benchmarks: Multistate Comparisons, Tables 2.12 (2003).

Note: 1997 and 1999 claims as of mid-2000.

The data presented in this section indicate that the average total cost for claims with seven or more lost work days is higher in Georgia than the 10-state median; average medical costs are lower, but average indemnity costs are higher, especially for claims in which PPD payments are made; and the percentage of lump-sum settlements and the average amount of such settlements are higher. However, we again caution that discrepancies between Georgia practices and the reporting conventions used by WCRI may produce an overestimation of costs attributable to PPD claims.

### *C. Maximum Medical Improvement (MMI) and Return to Work Standards*

In every workers' compensation system there comes a point when the injured worker is no longer considered to have a "temporary" disability and becomes eligible for "permanent" disability benefits. In a majority of states the line that separates temporary from permanent is called "maximum medical

improvement” (MMI). As the name implies, MMI is a measure of physical ability, not job performance. When workers reach MMI, they no longer receive temporary total disability benefits and are evaluated for permanent disability benefits. This evaluation may result in an award of permanent partial disability benefits (PPD).

Georgia does not use the MMI standard. Instead, a Georgia worker is entitled to receive temporary (total or partial) disability benefits until he or she returns to work at or above the pre-injury wage. The “return to work” standard used to end temporary total disability benefits in Georgia is framed in functional terms (i.e., can the worker perform her job?) rather than an abstract measure of physical ability.

WCRI recently examined PPD claims in six states (California, Connecticut, Georgia, Florida, Texas, and Wisconsin). The purpose of the study was to identify factors associated with the incidence of PPD awards. WCRI found that of these six states, Georgia had the longest duration of temporary disability benefits and the largest percentage of lump-sum payments.<sup>60</sup> This study concludes that

The absence of MMI drives the use of lump-sum settlements and lengthens duration of temporary disability in Georgia. In our group of six states, Georgia is an exception. It does not use maximum medical improvement (MMI) as the basis for ending temporary disability benefits and rating workers for permanent disability. It seems evident that the absence of MMI in Georgia has an impact on the duration of claims, the use of lump-sum settlements, and their respective relationship to PPD rates. If policy makers in Georgia wonder why the use of lump sum settlements in their state is high, they need to focus on their unusual practice of not using MMI as a point at which

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<sup>60</sup>Workers Compensation Research Institute, Who Obtains Permanent Partial Disability Benefits: A Six State Analysis, Tables 3.1 and 3.1A (December 2002).

impairment is rated.<sup>61</sup>

However, Georgia's "return to work" standard may have cost-saving effects not measured by the duration of temporary disability benefits. Under a return to work standard, an employer must continue paying temporary disability benefits until the injured employee can return to work at his or her pre-injury wage. This creates an incentive for employers to return injured workers to suitable employment as quickly as possible. This incentive may help explain why Georgia has one of the lowest percentages of claims with seven or more days' lost time. As discussed Part IV B, the low percentage of claims with more than seven days' lost time is a major reason why Georgia's average total cost per claim on all claims was one of the lowest of the states included in the WCRI study. Thus, while MMI may shorten the average duration of temporary disability claims, a return to work standard may reduce the number of claims with seven or more days' lost time.

#### *D. Benefit Delivery Expenses*

Medical and indemnity benefits are the primary cost components in the workers' compensation system. A third component is the expense of delivering those benefits. Benefit delivery expenses include the medical cost containment expenses,<sup>62</sup> medical-legal expenses,<sup>63</sup> and litigation expenses.<sup>64</sup> Benefit delivery

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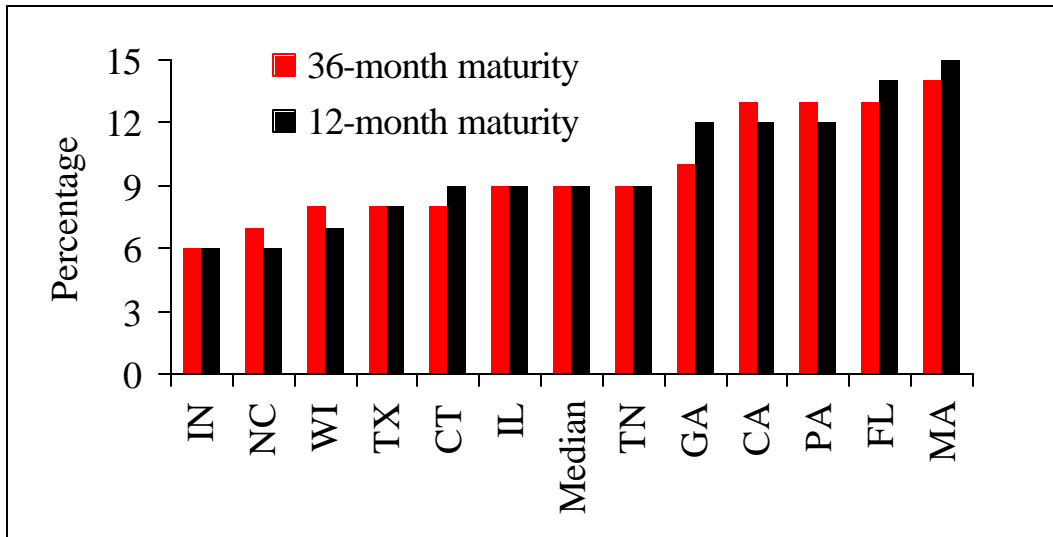
<sup>61</sup>Workers Compensation Research Institute, Who Obtains Permanent Partial Disability Benefits: A Six State Analysis, 61 (December 2002).

<sup>62</sup>Medical cost containment expenses are defined as "all payments related to medical cost containment, including fees for bill review, utilization review, case management, and preferred-provider networks." WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, p. 358 (2003).

<sup>63</sup>Medical-legal expenses are payments for independent medical examinations used to determine impairment ratings. WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, p. 359. The cost of such exams in Georgia averages \$598 and is incurred in only 3-4% of claims with seven or more days' lost time. WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, 61 and Table 214. The relatively infrequent use of independent medical exams may be due to the fact that under Georgia law, impairment ratings

expenses account for 6-15% of total claim costs within the states surveyed by WCRI. In Georgia, benefit delivery expenses account for 12% of total claim costs for immature claims and 10% of total claim costs in mature claims.<sup>65</sup> Figure 10 compares the benefit delivery expenses of the surveyed states.

Figure 10  
Allocated Benefit Delivery Expenses as a Percentage of Total Costs per Claim  
with More than 7 Days of Lost Time



Source: Workers Compensation Research Institute (2003), Figures 2.9a and 2.9b.  
Note: 1997 and 1999 claims as of mid-2000.

are determined by American Medical Association Guides to the Evaluation of Permanent Impairment (O.C.G.A. section 34-9-263(e)) and are routinely performed by the injured workers' treating physician. WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, 61. As medical-legal expenses do not contribute significantly to benefit delivery expenses in Georgia, we will not address them further in this Report.

<sup>64</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, p. 358 (2003). Litigation expenses are defined as "payments for defense attorney fees, ancillary legal costs, medical-legal costs, and other claims adjusting expenses". WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, p. 358 (2003).

<sup>65</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, Table 2.14.

## 1. Medical Cost-Containment Expenses

Table 21 reports medical cost containment expenses per claim in the 12-state sample.

Table 21  
Average Medical Cost Containment Expenses per Claim  
with More than 7 Days of Lost Time, Accident Years 1997 and 1999

Year	Average Medical Cost-Containment Expenses per Claim; Accident Year 1999	Average Medical Cost-Containment Expenses per Claim; Accident Year 1997
WI	\$460	\$640
IN	\$578	\$583
CT	\$611	\$701
NC	\$677	\$885
IL	\$846	\$843
MA	\$942	\$1,118
PA	\$975	\$1,132
TN	\$983	\$1,063
<b>GA</b>	<b>\$1,010</b>	<b>\$1,147</b>
TX	\$1,013	\$1,249
CA	\$1,062	\$1,320
FL	\$1,200	\$1,382
12-State Median	\$958	\$1,090

Source: Workers Compensation Research Institute, Table 2.14 (2003)

Note: 1997 and 1999 claims as of mid-2000.

The difference between the average medical cost-containment expense in Georgia and the 12-state median is less than \$60 per claim. Medical cost-containment expenses are not out of line with those incurred in other states and do not contribute significantly to the overall costs.

## 2. Defense Attorney Involvement

WCRI compares the frequency and cost of defense attorneys in workers' compensation cases.

There is no systematic reporting of claimant attorney involvement or the fees paid to claimant attorneys.<sup>66</sup>

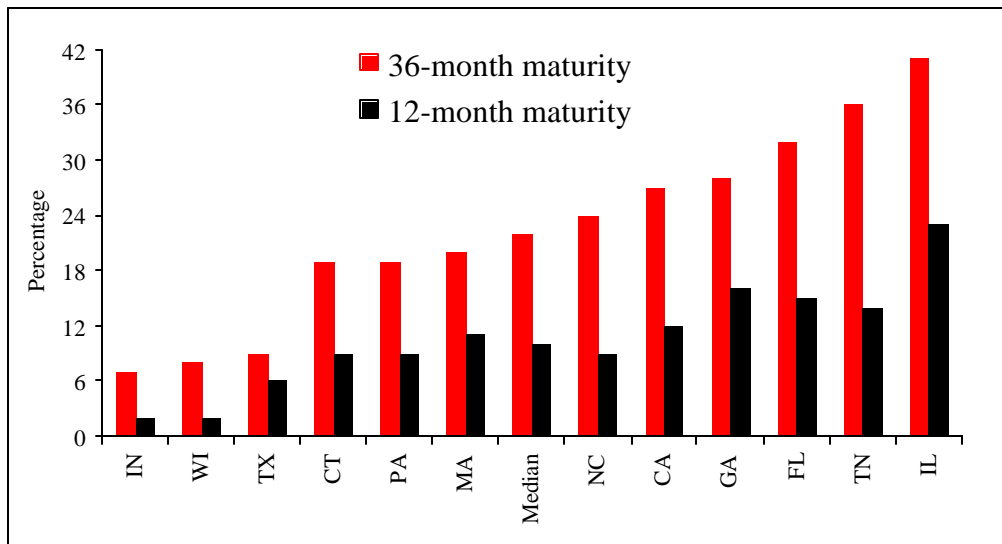
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<sup>66</sup>Claimant attorneys are commonly compensated on a "contingent fee" basis calculated as a percentage of indemnity benefits. Thus, claimant attorneys' fees do not directly contribute to total claim costs, but will

The WCRI data do not report the services provided by defense counsel, nor do they purport to evaluate the need for such services. Thus, there are inherent limitations on the inferences and conclusions that can be drawn from such data. Not surprisingly, however, benefit delivery expenses are higher in claims in which employers or insurers employ an attorney.

Figure 11 shows the percentage of claims with seven or more days' lost time in which defense counsel is involved.

Figure 11  
Claims with Defense Attorney Payments as a Percentage of Claims with More than 7 Days of Lost Time



Source: Workers Compensation Research Institute (2003), Figures 2.15a and 2.15b.

Note: 1997 and 1999 claims as of mid-2000.

Figure 11 lends itself to two observations. First, states vary considerably in the frequency of use of defense attorneys in workers' compensation cases. Second, in Georgia defense counsel are used in a higher percentage of immature and mature claims with seven or more lost days than in the 12-state median. However, WCRI notes that the rate of attorney involvement in mature claims declined in Georgia by at least

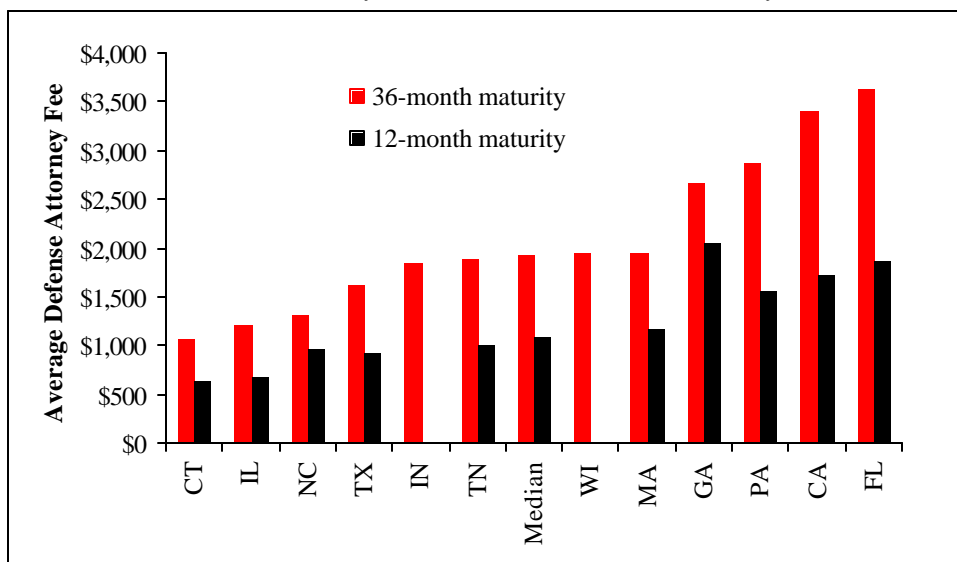
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reduce the claimant's overall recovery. Claimant attorneys' fees are subject to approval by the Board. O.C.G.A.

1.9% points per year.<sup>67</sup>

Figure 12 illustrates the average defense attorney fee in claims with 7 or more lost workdays.

Figure 12  
Average Defense Attorney Fees per Claim  
with More than 7 Days of Lost Time with Defense Attorney Fees



Source: Workers Compensation Research Institute (2003), Figures 2.16a and 2.16b.

Note: WCRI omitted Indiana's and Wisconsin's 12-month values because they were not meaningful due to excessive variation likely caused by small sample sizes.

Note: 1997 and 1999 claims as of mid-2000.

Georgia employers/insurers pay the highest average fee in these 12 states for immature claims and 39.5% more than the median for mature claims. WCRI cautions, however, that services provided by defense attorneys in workers' compensation cases vary from state to state. An attorney in one state may perform services provided by a claims adjuster in another state. WCRI specifically observes that employers/insurers utilize attorneys in Georgia to draft all stipulated settlements "so an attorney is involved (a fee is charged) on every claim that is settled, whether or not the claim is litigated."<sup>68</sup>

The impact of attorneys' fees on the overall costs of the workers' compensation system in Georgia

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section 34-9-108.

<sup>67</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, p. 138, Table 4.4B.

is not great. Employers/insurers utilize the services of defense counsel in a small percentage of cases. Claims with seven or more days' lost time account for approximately 14-15% of all claims, and a defense attorney appears in only a small percentage of these claims (16% for immature and 28% of mature claims). In the relatively small number of cases in which a defense attorney appears, fees constitute a portion of benefit delivery expenses, which in the aggregate constitute somewhere between 10-12% of total costs.

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<sup>68</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, p. 61.

## VIII. CATASTROPHIC INJURY CLAIMS

The most serious injuries are designated as “catastrophic” under the Georgia worker’s compensation laws. Catastrophic injury claims typically incur the highest costs. The Commission asked the State Board to compile the number and costs of catastrophic injury claims. As explained below, we found no evidence that catastrophic claims as a whole, or any category of catastrophic claims, currently imposes an undue burden on the system. However, this is a relatively new type of claim under Georgia law, and such claims should be monitored.

### *A. The Background of Catastrophic Injury Claims*

1992 amendments to the Georgia Workers’ Compensation statutes imposed a 400-week maximum on the duration of indemnity benefits paid for total disability.<sup>69</sup> This limit on income benefits does not apply to “catastrophic injuries.” Under the statute, there are seven categories of catastrophic injuries. Six of these categories involve largely objectively determined conditions and have not generated much controversy.<sup>70</sup> One category of catastrophic injury (category 6) incorporates the definition of total disability used in the federal Social Security system. Some have suggested that the standards for total disability under Social Security are too subjective, and their inclusion into the Georgia definition of catastrophic injury might lead to an excessive number of claims bypassing the 400-week limitation. With this question in mind, the Commission asked the State Board to compile data on catastrophic claims in general and category 6 catastrophic injury claims in particular.

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<sup>69</sup>O.C.G.A. section 34-9-261.

<sup>70</sup>These include spinal cord injuries, specified amputations, severe brain injuries, severe burns, blindness and any multiple combination of these injuries. O.C.G.A. section 34-9-200.1(g). We refer to these catastrophic

*B. Catastrophic Injury Claims Account for a Small Percentage of Overall Costs*

Table 22 contains information about the number of injuries designated catastrophic between 1997 and 2002, the amounts paid in benefits for such claims, and the percentage of benefits paid for catastrophic claims compared to the total benefits paid for all claims.

Table 22  
Benefits Paid for Injuries Designated Catastrophic,  
by Accident Year  
1997-2002

Categories	Number of Claims	Indemnity Benefits Paid	Medical Benefits Paid	Total Benefits Paid <sup>a</sup>	Total Benefits Paid as a Percentage of Total Cost <sup>b</sup>
1-5, 7	642	\$46,233,122	\$113,201,694	\$159,434,816	4.4%
6	627	\$42,796,630,24	\$39,427,943	\$82,224,573	2.2%
Total	1215	\$89,029,752	\$152,629,637	\$241,659,389	6.7%

Source: Georgia State Board of Workers' Compensation, Number and Cost of Catastrophic Injury Claims, 1997- 2002, (March 2003).

All data as of Dec. 31, 2002.

Note: <sup>a</sup>Dollars are accounted for on an accident year basis.

<sup>b</sup>During this period there was a total of 252,959 claims with a total cost of \$3,601,657,878.

During this six-year period, 1,215 injuries were designated as catastrophic. Category 6 claims (627) accounted for the largest number of claims for any one category. Benefits paid for catastrophic injuries accounted for 6.7% of the total benefits paid for all claims during this period. Benefits paid for Category 6 catastrophic claims accounted for only 2.2% of the total benefits.<sup>71</sup>

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injuries as categories 1-5 and 7.

<sup>71</sup>Some members of the Commission commented that the potential for an injury to be designated "catastrophic" may increase the amounts paid in settlement. Thus, the full impact of catastrophic injuries on total workers' compensation costs may not be measured simply by the amounts paid for claims that have formally been designated catastrophic. Other Commission members did not believe that the potential designation of an injury as catastrophic affected amounts of settlement. The Commission has no reliable information on what impact, if any, the potential designation of an injury as catastrophic has on settlement practices.

*C. The Number of Injuries Designated “Catastrophic” Has Declined in Recent Years; but the Number and Cost Figures for Recent Years Will Increase over Time and Should be Closely Monitored*

Table 23 compares the number of injuries designated as catastrophic under category 6 with the number of other categories of catastrophic injuries claims.

Table 23  
Number of Injuries Designated Catastrophic,  
by Accident Year  
1997-2002

Year	Categories 1-5, 7	Category 6	Total
1997	125	152	277
1998	110	176	286
1999	147	161	308
2000	115	84	199
2001	80	33	113
2002	65	21	86
Total	642	627	1269

Source: Georgia State Board of Workers’ Compensation, Number and Cost of Catastrophic Injury Claims, 1997- 2002, (March 2003).

All data as of Dec. 31, 2002.

Table 23 shows that the total number of injuries designated catastrophic has declined in each of the past three years. The number of category 6 catastrophic injuries has declined in each of the past four years, with only 21 such injuries in 2002.

The decline in the number and cost of claims for catastrophic injuries reflected in Tables 22 and 23 may not be as dramatic as it first appears. An injury may not be designated catastrophic until several years after its occurrence. A worker may not seek catastrophic designation until near the expiration of the 400-week limit on total disability benefits. Ultimately there will be more injuries designated catastrophic in recent accident years than are currently reported. Thus, we will not know the total number and costs of catastrophic injury claims for recent accident years until more time has passed. At this time, however,

catastrophic claims as a whole, and category 6 claims in particular, are not placing an undue burden on the Georgia workers' compensation system in terms of the number or cost of claims.

## **IX. TECHNOLOGY, DATA, AND ONGOING COMPARISONS WITH OTHER STATES**

Workers' compensation is a dynamic system. Monitoring its performance requires an ongoing process of data collection and analysis. Moreover, data require some benchmarks, or points for comparisons, to yield meaningful insights into system performance. The Commission believes that there is a need to enhance the Board's technological capacity to collect, organize, retain and analyze data; and that Georgia should continue participating in interstate studies of workers' compensation systems.

### *A. Technology*

Workers' compensation systems generate volumes of data. Standard forms must be filled out when injuries occur, payments are made, claims are controverted, and claims are settled or otherwise finally disposed. Much data generated by a workers' compensation claim is sent to the Board and thus is centrally located. There is great *potential* for systematic collection, retention, and analysis of data already being reported on various forms. The Commission found, however, that this potential is not being fully realized. Despite its good-faith efforts, the Board often had to retain outside consultants to respond to requests by the Commission for specific data. Moreover, the Board retains data for only five years. This time limitation makes it more difficult to track long-term trends. The Board, of course, is aware of the inherent limitations of its current technological resources and is making plans for improvements. One such plan appears in Appendix III. The Commission did not undertake an independent assessment of the technology or additional personnel needed to improve the Board's ability to collect, retain, and analyze data. We do, however, support the Board's efforts in these regards.

## *B. Participation in Studies of Interstate Comparisons of System Performance*

Georgia has participated in two of WCRI's "benchmark" studies of workers' compensation system performance. The Commission believes that Georgia should continue to participate. It is difficult to make interstate comparisons of workers' compensation systems because there are many subtle, but significant, differences in how state systems operate. The statistical methodology used to compare system performance is quite complex. It is doubtful that Georgia or any other individual state can dedicate the resources needed to undertake such studies on a regular basis. WCRI's "benchmark" studies provide a unique source of information that compares system performance among an important group of states. Participation in interstate studies might also yield useful information on more narrowly focused issues not addressed in this Report, such as the exclusion of agricultural workers from coverage or the continued need for the Subsequent Injury Trust Fund.

We caution, however, that state officials need to work closely with WCRI to ensure that the studies address issues relevant to policymaking in Georgia. By way of example, WCRI purported to measure the speed with which payments are made to injured workers by calculating the percentage of claims in which the first payment was made within twenty-one days of injury. It reported that 40% of Georgia claims were paid within 21 days from the date of injury.<sup>72</sup> This implies that 60% of Georgia claims are not paid in a timely fashion. However, in many instances the first payment is not legally due within 21 days of notice of injury as when, for example, an employee continues to work after the initial injury and later becomes disabled. According to the Board, more than 70% of Georgia's workers receive the first payment of income benefits within the time prescribed by the statute. Thus, in this instance, the WCRI figure provides a

somewhat misleading picture of the timeliness of payments in Georgia.

The WCRI officials who assisted the Commission were exceptionally cooperative and receptive to suggestions on how future studies might be better tailored to the informational needs of individual states. The Commission believes that continued participation in interstate studies such as those currently performed by WCRI will contribute to better-informed policymaking.

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<sup>72</sup>WCRI, CompScope™ Benchmarks: Multistate Comparisons, 1994-2000, Table 2.1.

## **X. CONCLUSION**

### *A. Big Picture: Declining Number of Claims; Declining Aggregate Costs; Comparatively Low Cost per Claims; Profitable Insurance Relative to Workers' Compensation in Other States*

The overall health of the Georgia workers' compensation system is quite good. The number of claims continues to decline despite growth in the work force. Reductions in the number of workers' compensation claims have led to a decline in aggregate costs. Workers' compensation costs in Georgia are low compared to those in other states whether measured in terms of cost per worker or average cost per claim for all claims paid. The low average total cost appears to be driven by the low percentage of Georgia cases with seven or more lost days from work. During the 1990s, workers' compensation has been a profitable line of insurance compared to the workers' compensation sectors in other states. The most recent NCCI rate request in Georgia calls for a further reduction in premium cost. However, the profitability of Georgia workers' compensation is quite low compared to other sectors of the economy.

These big-picture features indicate that workers' compensation costs do not place Georgia at a competitive disadvantage in attracting businesses to the state, nor do they place Georgia employers at a competitive disadvantage with employers in other states.

### *B. Specific Points for Further Consideration and Study*

While the workers' compensation system in Georgia is in good shape as a whole, specific aspects of the system merit additional attention. The statutory cap on weekly indemnity benefits in Georgia is one of the lowest in the country. Georgia is the only southern state that does not provide a disabled worker with a maximum level of income protection of at least two-thirds of the state's average weekly wage. Every

contiguous state sets the maximum indemnity benefit at 100% or more of the state's average weekly wage. The low cap on weekly indemnity benefits raises a serious question whether Georgia is providing an adequate level of income protection to its injured workers. This problem is exacerbated by Georgia's failure to index the weekly maximum indemnity benefit; it is the only southern state that does so.

Despite having one of the lowest caps on weekly indemnity benefits, Georgia has a comparatively high average total cost per claim with seven or more lost workdays. The higher average total cost per claim is driven by indemnity rather than medical benefits. The higher average indemnity benefit per claim appears to be related to the duration of temporary total disability benefits, which appears to be lengthened by the use of a return to work standard rather than MMI. However, the return to work standard may provide incentives to find suitable employment for injured workers, which may help explain why Georgia has a low percentage of claims with seven or more lost work days.

Benefits paid for catastrophic injuries are not placing an undue burden on the workers' compensation system at present. However, an injury occurring in any given year may not be characterized as catastrophic until many years later. Consequently, present measures of the number and costs of catastrophic injuries may increase, and the Board should track catastrophic injury claims over time.

Finally, there is a great need for collecting, retaining, and analyzing data on an ongoing basis. That may require additional investments in technology and personnel. Moreover, comparisons of system performance in Georgia with that of other states provide points of reference from which to evaluate the Georgia system. Interstate comparisons are complex, and care must be taken to ensure that the comparisons are relevant to policymaking issues in Georgia. However, the Commission believes that continued participation in such studies will make a positive contribution to future policymaking.

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“On Workers' Compensation: Monthly Developments Around the Nation.” Volume 13, Issue 1, March 2003, Table 1.

# APPENDICES

## Appendix I

### National Rating Bureau Ranking by Cost per Worker, Policy Years 1996 and 1998

Policy Year	1998 Ave. Cost per Worker (in dollars)	1996 Ave. Cost per Worker (in dollars)
Alaska	781	679
California	621	520
Florida	549	617
Montana	539	557
Nevada	534	
New York	527	538
Pennsylvania	491	505
Oklahoma	487	509
Vermont	474	388
Delaware	457	
Louisiana	456	371
Colorado	451	502
Alabama	447	472
Maine	432	451
Idaho	415	350
Texas	411	369
Rhode Island	404	264
New Hampshire	401	367
Tennessee	396	340
Hawaii	389	418
Missouri	386	317
Oregon	384	525
Illinois	380	351
Maryland	373	267
Connecticut	373	366
Nebraska	370	315
Wisconsin	359	292
North Carolina	357	267
Arizona	356	331
Massachusetts	343	268
Iowa	340	275
Kentucky	332	354
South Carolina	329	278
Michigan	327	322
Mississippi	314	307
Minnesota	306	297
Kansas	303	246
New Mexico	300	282
Virginia	277	297

Georgia	273	299
New Jersey	264	276
South Dakota	249	349
Utah	225	244
Indiana	215	192
Arkansas	212	186
District of Columbia	145	156

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Source: National Council on Compensation Insurance, *Annual Statistical Bulletin*, 2000 and 2002 Editions.  
Notes: No 1996 data for Nevada and Delaware were reported.

## Appendix II

### National Rating Bureau Ranking by Cost per Claim, Policy Years 1996 and 1998

Policy Year	1998 Ave. Cost per All Paid Claims (in dollars)	1996 Ave. Cost per All Paid Claims (in dollars)	1994 Ave. Cost per All Paid Claims (in dollars)
New York	11,936	11,583	9,979
California	9,796	7,259	5,848
DC	9,358	9,077	8,829
Alaska	9,254	7,215	5,590
Maryland	8,655	5,520	5,941
Texas	8,479	7,662	6,761
Florida	8,439	9,211	9,548
Louisiana	8,418	7,428	5,966
Delaware	7,822		
Colorado	7,211	6,534	5,895
Hawaii	7,163	7,208	8,888
Alabama	6,991	6,560	5,586
Illinois	6,753	5,798	5,435
North Carolina	6,609	4,774	4,119
Oklahoma	6,431	6,925	7,600
Vermont	6,383	5,248	6,301
Pennsylvania	6,159		
Connecticut	6,006	5,340	4,931
New Jersey	5,973	5,862	4,916
Missouri	5,947	4,903	4,316
South Carolina	5,709	4,421	4,308
Virginia	5,704	6,229	4,330
Tennessee	5,680	4,368	4,087
Nevada	5,541		
Montana	5,478	5,563	7,766
Georgia	5,461	5,206	5,377
Massachusetts	5,442	4,446	5,574
New Hampshire	5,371	4,602	5,062
Kansas	5,263	3,703	3,605
Nebraska	5,163	4,115	3,052
Oregon	4,983	6,695	4,821
Rhode Island	4,980	4,174	4,717
New Mexico	4,975	4,204	4,300
Arizona	4,863	4,207	4,481
Maine	4,854	5,804	4,534
Iowa	4,833	3,821	3,141
Mississippi	4,420	4,076	3,770
Idaho	4,373	3,585	3,287
Minnesota	4,307	3,951	4,257

Michigan	4,227	3,833	3,706
Kentucky	4,219	4,015	4,478
Wisconsin	3,865	2,950	3,073
South Dakota	3,167	3,830	3,866
Arkansas	2,979	2,553	2,928
Utah	2,856	2,607	3,018
Indiana	2,433	2,169	2,022

Source: National Council on Compensation Insurance, *Annual Statistical Bulletin*, 2000 and 2002 Editions.

Notes: No 1994 and 1996 data for Nevada and Delaware were reported.

# State Board of Workers' Compensation INTEGRATED CLAIMS MANAGEMENT SYSTEM (ICMS) INITIATIVE

## **1. Project Overview**

### **1.1 Project Name**

Integrated Claims Management System

### **1.2 Project Description**

The primary objective of this project is to implement a stable, state-of-the-industry, fully integrated claims management solution capable of supporting SBWC's mission well into the 21<sup>st</sup> century and replacing the current manual, paper process. The Integrated Claims Management System (ICMS) supports the State Board of Workers' Compensation (SBWC) mission, vision, and goals.

The ICMS will be a web-enabled system that will run in an Intranet / Internet / Extranet environment. The new solution will enable SBWC staff to perform all duties associated with claims management, assessments, alternative dispute resolution, trial, appeals, settlements, rehabilitation, managed care, licensure and quality assurance using the workstations on each desk networked through an agency-wide LAN and the internet.

A fully Integrated Claims Management (ICM) solution is expected to include, but is not limited to, document management (optical imaging and storage), data warehousing, web enabled applications, contact management, automated notification, work flow management, statistical reporting, business process and organizational changes, as well as all computer hardware and software necessary to support SBWC's requirements. This includes all necessary documentation and training in processes and software.

- The entire architecture will be ***J2EE architecture*** according to the state's standards.

ICMS applications consist of several tiers. Tiers are primarily abstractions to help us understand the architecture. Following the Java 2 Enterprise Edition (J2EE) architecture, a popular development platform for distributed enterprise applications, the J2EE architecture usually involves four distinct tiers, as shown in Figure 1.

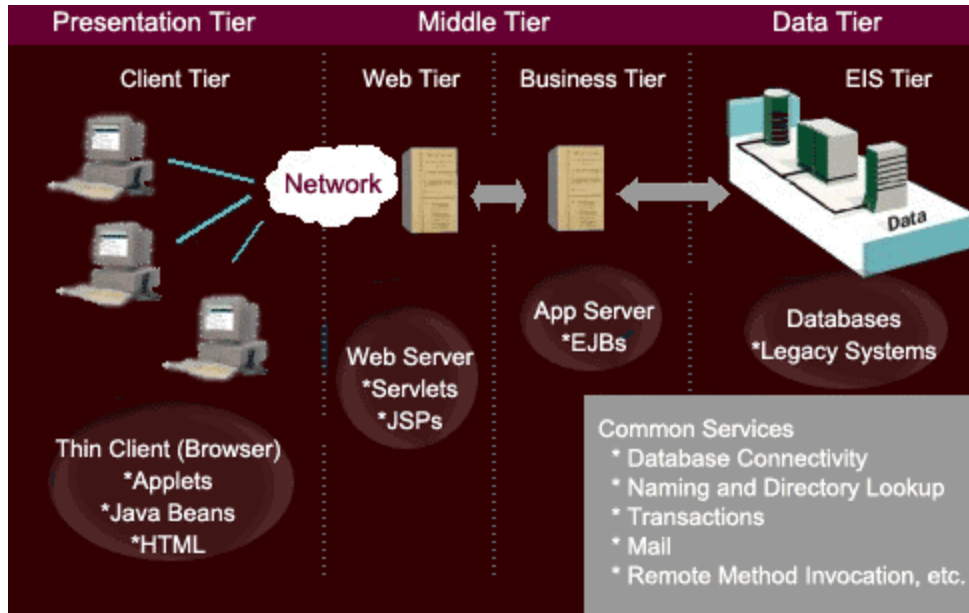


Figure 1: Multi-Tier Architecture

More precisely, the tiers are distinguished as follows:

**The Client Tier --** The Client Tier provides for the interaction between the Web application and the end users, typically through a thin client such as a browser. The technologies involved in this configuration are D/HTML, XML, XSL, Java™ Applet, etc.

A client may also be an "application-based" client that connects to an Enterprise Information System client. Such clients are commonly referred to as think clients.

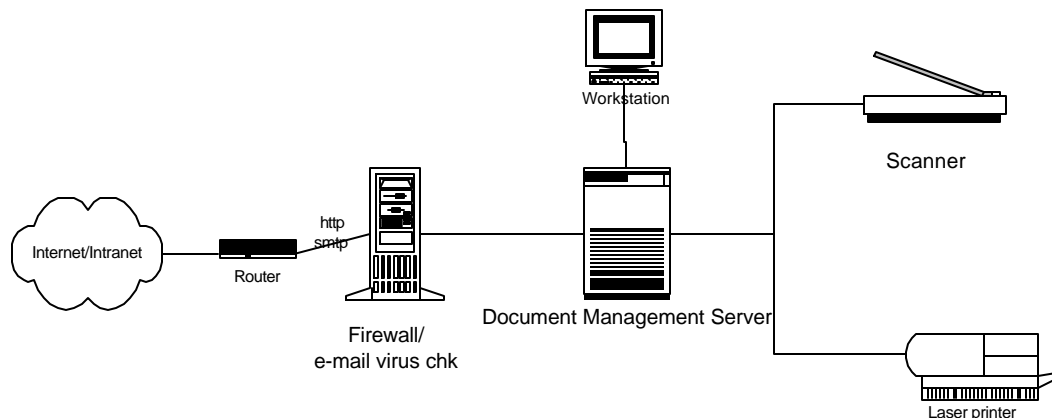
**The Web Tier --** The Web Tier is the interface between the end user and the business logic of your application. By separating the presentation logic from the business logic in this fashion, we can update the look and feel of our application without any modification to the business logic itself. This also allows us to have a throw-away facade that lets us stay in sync with the latest Internet technologies. At this level, we typically find the JSPs (Java Server Pages) and Java Servlets technologies, as well as use of XML, XSL, HTML, DHTML, GIF images, JPEG images, etc.

**The Business Tier --** This is where we implement the business logic, that is, the actions that make up this application. These actions are encapsulated within components called Enterprise JavaBeans (EJBs). By far the most popular technology of the J2EE family, the Enterprise JavaBeans architecture brings to this application all the system-level services it might require, such as transactions, security, persistence, or multi-threading. These aspects of EJBs are handled by the EJB container, which we will discuss shortly.

**The EIS Tier --** The Enterprise Information System (EIS) tier provides persistent storage for the resources required by this application.

Although ICMS application does not have to have all these tiers as independent entities, it helps to conceptualize an application component as belonging to a specific tier.

- **Optical Imaging/Storage** will contain all data related to claims (including but limited to scanned documents, judicial rulings, actions and settlements), as well as rehabilitation supplier and managed care organization applications and renewals. The system will track using unique indexing, eliminating the use of a social security numbers, and include date and time stamping for check-in and checkout processes. This common intake and storage process will use OCR, ICR and barcode, storage media and SANs (storage area networks) technologies. The system will support electronic file and fetch or electronic file cabinet components, folder and sub-folder strategies, load images and indices, and online storage. An example document management diagram can be seen below:



- **Workflow Management**, as part of the imaging solution, will also provide bar code capability, enabling the addition of bar codes for input as well as newly generated output and the OCR/ICR capability to read the bar codes. These capabilities will be integrated with workflow management capabilities and work queues, thus eliminating historically manual efforts to identify the responding claims party and enter the data.
- **Contact Management/Claims Assistance** will allow authorized users easy access to all pertinent information as well as the ability to update. This capability will provide an automatic update to the contact database and records and accommodate user-entered, free form, notes. Additionally, any information pertaining to the contact will be automatically linked to the system and be viewable by the user supporting inquiries.
- **Data Warehousing** will be a resource of data available for query with appropriate user-friendly tools for executing ad hoc queries and reports.
- **Web Applications** will include a highly secure environment accessible by authorized SBWC personnel, workers' compensation claims parties, assessments, Subsequent Injury Trust Fund (SITF), Guaranty Self-Insured Trust Fund (GSITF), rehabilitation suppliers and managed care organizations. The application will allow users access to claims files, rehabilitation and managed care information. The portal will include a calendar of scheduled hearings dates, actions, settlements and results of files, and incorporate an internal tickler system of incoming actions needed to be taken. In addition, Board Forms for submission of workers' compensation claims, rehabilitation supplier registration, renewals and plans and managed care organization applications will be interactive as well as downloadable. Finally, the portal would tie the Georgia Online Network together with the entire claims management system providing a single point of entry for all authorized users.
- **Statistical Reporting** will include a full, robust statistical analysis and reporting system with the ability to maintain a host of historical information.

- **Automated notification** will be implemented for standard letters, orders, awards, notifications and general correspondence maintained as word processing template documents. These notifications will automatically be invoked when a user completes a task merging the notification with the necessary database information. The notification will be viewable, modifiable and printable.
- The **data center** at SBWC will be expanded to accommodate the installation of new hardware, and have the necessary air conditioning, power, sensor and fire suppression requirements.
- A **disaster recovery** plan will be implemented to avert interruptions of service, assist in accomplishing degraded-mode information process activities, and assist in an orderly return to production mode.
- **Training** will encompass SBWC users, managers, operations staff, and IT staff encompassing platforms, applications, and environments according to the needs of the identified personnel and will be implemented in a phased approach. Topics will include, but will not be limited to, the system's development methodology, end-user functional capabilities, procedures, administration, maintenance, troubleshooting, documentation use, operations, all applications, query language, and report writer products.
- The **hardware requirements** include but are not limited to, installation, sizing and performance, LAN and desktop PC's, UPS, surge protectors, and miscellaneous equipment, laser printers, post processing equipment, security controls, new releases/versions, warranties, regulatory changes, implementation of new modules/functionality, special conditions, support, development, testing and training environments, as well as data conversion and bridging and CCOP requirements.
- The **software requirements** include but are not limited to the operating system, networking, network management, database management, commodity, application, and operation software, as well as system software, development, distribution agents, programmer/productivity, change management/version control tools and support.

### 1.3 Project Benefits /Values

The overall goal of the project is to improve productivity, responsiveness, flexibility, functionality, effectiveness, as well as increase security and accuracy of data while minimizing operating expenses and staff growth rate. The ability to handle future plan changes and membership growth with a minimum of expense and effort is also required of the new system. Additionally, this project will have the largest impact to users and is a prerequisite for future projects to be successful.

Additional objectives to be served by this procurement include:

- Improved service levels to SBWC constituents.
- Improved system workflow and increased work efficiency.
- Improved accuracy of all information collected, maintained, and provided by SBWC.
- Improved timeliness and accuracy of responses to inquiries.
- Inclusion of any proven new technologies that can provide cost-effective benefits to SBWC's constituents.