

DO WE ACCURATELY IDENTIFY DISABILITIES AS OCCUPATIONAL? SHOULD WE BOTHER TRYING?

Short description:

We identify the existence, size and direction of cross-subsidization between occupational and non-occupational disability systems and the efficiency gains of integration.

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Abstract:

Across the United States, occupational injuries receive near universal coverage under state-regulated workers' compensation programs. However, California is one of only six jurisdictions that provides workers with a near universal non-occupational disability program, called State Disability Insurance (SDI). While workers' compensation is entirely financed by employers, SDI is solely supported by workers through automatic payroll deductions.

The workers' compensation system is increasingly dominated by disputes over whether cumulative injuries and illnesses should be considered occupational or non-occupational. Because occupational and non-occupational causation is difficult to define, it is possible that the current methods of sorting injuries and illnesses into the appropriate program (often through litigation) is biased, leading one California program to subsidize the other.

We use a virtually unexplored data set from the California SDI system in conjunction with California occupational injury data from the Bureau of Labor Statistics to conduct a first-of-its-kind study to estimate the existence, direction, and size of cross-subsidization between these two systems. We find that 8.4% of occupational injuries and nearly two-thirds (66.2%) of occupational illnesses are incorrectly classified as

non-occupational in origin. We further estimate that 0.08% of workers' wages are being shifted to employers and insurers.

Finally, we compare the administrative cost of delivering benefits under the occupational and non-occupational disability systems and find the non-occupational system is several times more efficient. In California, for occupational disabilities, it costs \$1.50 in administration to deliver \$1.00 of benefit payments to injured workers. This is 25 to 30 times as high as the \$0.06 it costs the state run, non-occupational disability system to deliver the same dollar of benefits.

We argue that integration of occupational and non-occupational systems could be an efficient solution to eliminating cross-subsidization, reducing costly litigation, and encouraging efficient investment in safety, while reducing the cost to both employers and employees.

The implications for disability policy are compelling. All U.S. states and Canadian provinces as well as many, if not most other countries maintain separate disability benefit systems for occupational and non-occupational disabilities. Many if not all of these jurisdictions that maintain separate benefit delivery models could obtain substantial efficiency savings by integrating the two systems.