The non-indexing of PPD benefits and alternatives for raising them

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David Berry
Research and Statistics

DEPARTMENT OF LABOR AND INDUSTRY

Background

- The permanent partial disability (PPD) benefit (originally called "impairment compensation" or IC) is equal to the PPD rating multiplied by a benefit amount per rating point.
- The benefit amount per rating point is from a schedule in statute.
- Except for law changes, the statutory schedule is fixed – not indexed for wage or price growth.
- Since the 1983 law change, the schedule has been raised twice by law changes:
  - in 2000 by 14.1% overall (different percentages for different rating levels); and
  - in 2018 by 5.0% (same percentage for all rating levels).
- A higher tier ("economic recovery compensation" or ERC) was paid instead of IC in certain circumstances. ERC was eliminated for injuries on or after Oct. 1, 1995.

The following analysis goes back to 1983. Why?

- Except for the elimination of ERC in 1995, the PPD benefit schedule took its present form in 1983.
- The monetary amounts the Legislature assigned to the different impairment ratings reflected the purchasing power of the dollar at the time.

The analysis ignores the elimination of ERC in 1995. Why?

- This honors the legislative decision that kept only IC.
- Note: If the analysis took account of the elimination of ERC, it would find a greater reduction in the purchasing power of PPD since 1983 than it actually does.

PPD benefits as a percentage of total indemnity, total benefits and total workers' compensation system cost, projected to 2022

PPD benefits as percentage of —	Excluding the PPD portion of settlements	Including an estimate for the PPD portion of settlements
Total indemnity benefits	4.2%	16.2%
Total indemnity and medical benefits	1.9%	7.4%
Total WC system cost	1.2%	4.8%

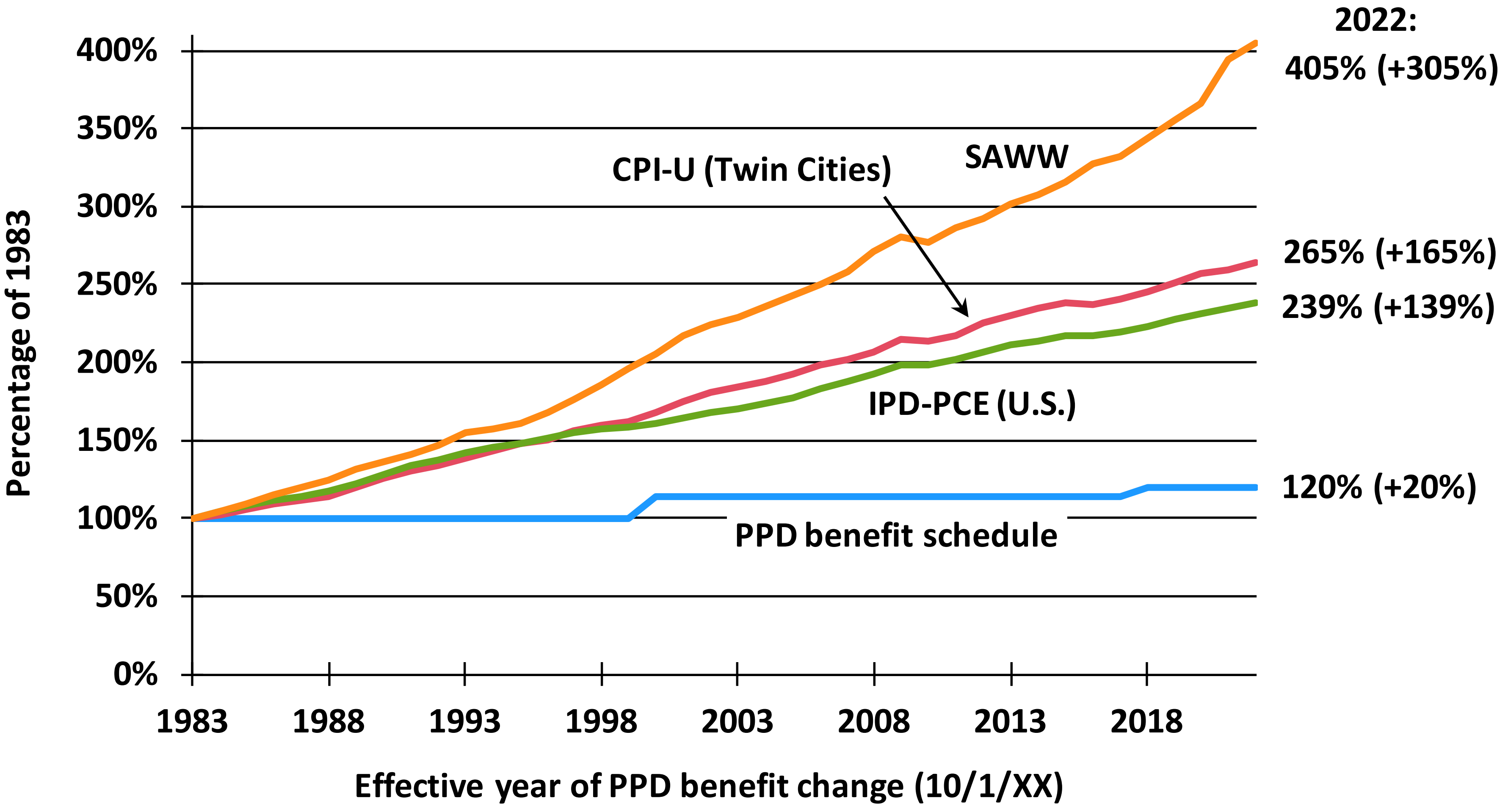
1. Estimated with data from DLI and the MWCIA. Incorporates estimates from DLI mediators regarding the composition of settlements with respect to the various benefit types.

PPD benefit schedule growth compared with wage and price growth [1]

CPI-U = Consumer Price Index for Urban Consumers

IPD-PCE = Implicit Price Deflator for Personal Consumption Expenditures

SAWW = Statewide Average Weekly Wage



1. 2022 values are projected.

Decline in level of PPD benefit schedule as adjusted for wage and price growth [1]

CPI-U = Consumer Price Index for Urban Consumers

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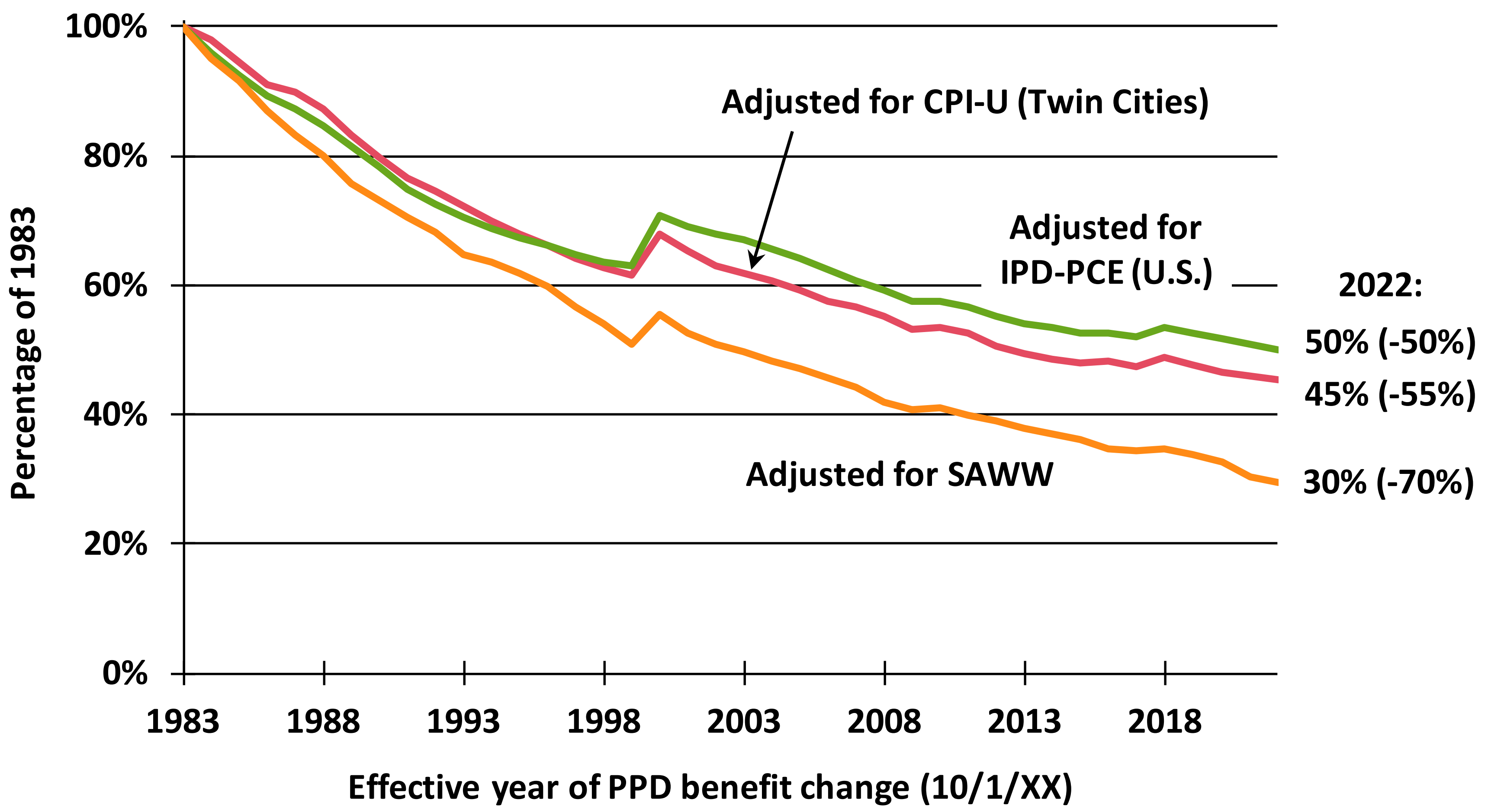


1. 2022 values are projected.

1983 and 2022 PPD benefits for selected impairment ratings, unadjusted, and in 1983 and 2022 constant dollars as calculated with the Consumer Price Index

	In the dollars of the time (unadjusted) [1]			In constant 1983 dollars [2]			In constant 2022 dollars [2]		
Impairment rating	1983 benefit	2022 benefit	Change	1983 benefit	2022 benefit	Change	1983 benefit	2022 benefit	Change
5%	$3,750	$3,940	+5.1%	$3,750	$1,490	-60.3%	$9,920	$3,940	-60.3%
10%	$7,500	$8,400	+12.0%	$7,500	$3,170	-57.7%	$19,850	$8,400	-57.7%
20%	$15,000	$19,960	+33.1%	$15,000	$7,540	-49.7%	$39,690	$19,960	-49.7%
40%	$36,000	$50,400	+40.0%	$36,000	$19,050	-47.1%	$95,260	$50,400	-47.1%

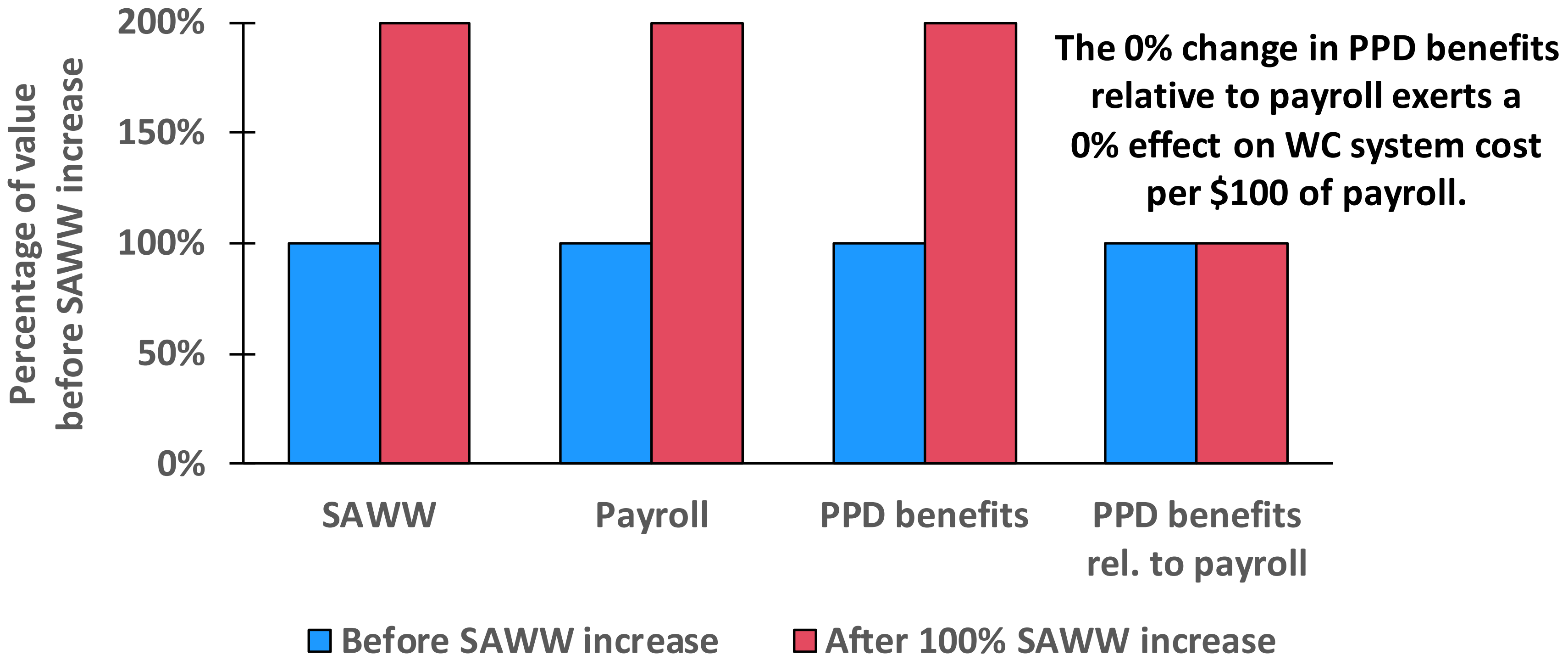
1. These benefits were calculated using the formula in effect at the time, assuming no change in 2022.
2. The benefit amounts in 1983 and 2022 constant dollars were calculated using the Consumer Price Index for Urban Consumers (CPI-U) (Twin Cities), which will have increased by a projected 165% between 1983 and 2022.

The effect of a rising SAWW on PPD benefits relative to payroll and workers' compensaton system cost relative to payroll with PPD benefit schedule fixed

Conceptual exercise: let the SAWW increase by 100% (everything else constant).

The effect of a rising SAWW on PPD benefits relative to payroll and workers' compensation system cost relative to payroll with PPD benefit schedule indexed to SAWW

Conceptual exercise: let the SAWW increase by 100%
(everything else other than PPD benefit schedule constant).



Effects of actual SAWW increase and actual PPD benefit schedule increase as exerted through PPD benefits relative to payroll, 1983 to 2022

Effect on —	Actual change, 1983-2022 [1]
PPD benefit schedule relative to the SAWW	-70.4%
PPD benefits relative to payroll [2,3]	-69.1%
Total indemnity benefits relative to payroll [3]	-26.6%
WC system cost per $100 of payroll [3]	-9.6%

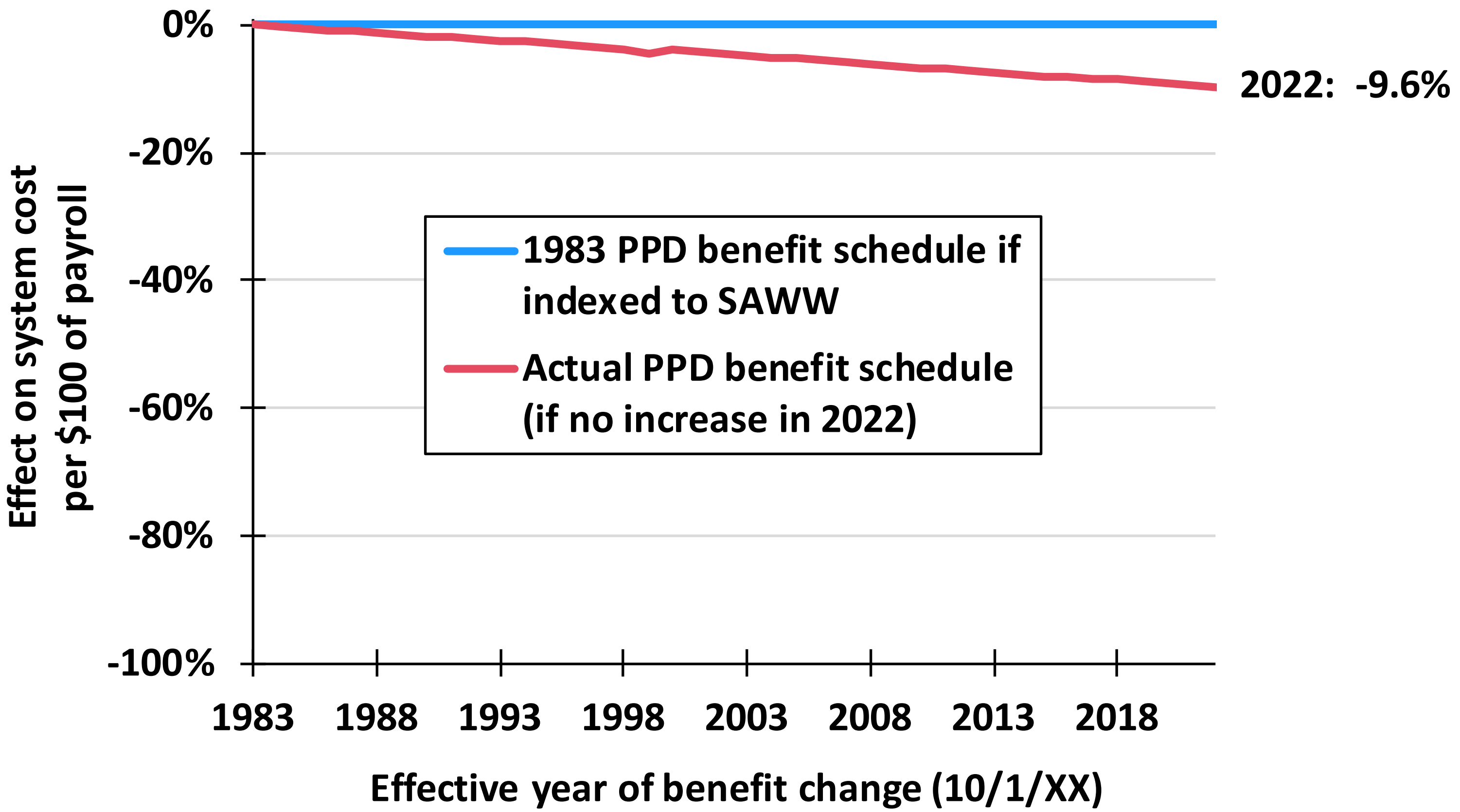
1. Values for 2022 are projected.
2. This value is less than the 70.4% relative decline in the PPD schedule because of the discount provision in statute.
3. Other changes in the last three items were happening from other causes. The changes shown here are just portions of the total changes; they represent the effects of the increased SAWW and PPD schedule as exerted through PPD benefits relative to payroll.

Effects of actual SAWW increase and PPD benefit schedule increase as if indexed to SAWW as exerted through PPD benefits relative to payroll, 1983 to 2022

Effect on —	Actual change, 1983-2022 [1]
PPD benefit schedule relative to the SAWW	0.0%
PPD benefits relative to payroll [2]	0.0%
Total indemnity benefits relative to payroll [2]	0.0%
WC system cost per $100 of payroll [2]	0.0%

1. Values for 2022 are projected.
2. Other changes in the last three items were happening from other causes. The changes shown here are just portions of the total changes; they represent the effects of the increased SAWW and PPD schedule as exerted through PPD benefits relative to payroll.

Effects of actual PPD benefit schedule and SAWW-indexed schedule on workers' compensation system cost per $100 of payroll [1]



1. Values for 2022 are projected.

Cost effects of different alternatives for raising the PPD benefit schedule

Base year	Increases as of October 1, 2022 [1]								
	Increase in PPD benefit schedule if PPD ben. sched. were indexed from October 1 of base year by —			Estimated increase in PPD benefits [2] if PPD ben. sched. were indexed from October 1 of base year by —			Estimated increase in WC system cost per $100 of payroll if PPD ben. sched. were indexed from October 1 of base year by —		
	IPD-ICE (U.S.)	CPI-U (Twin Cities)	SAWW	IPD-ICE (U.S.)	CPI-U (Twin Cities)	SAWW	IPD-ICE (U.S.)	CPI-U (Twin Cities)	SAWW
1983	99.3%	120.9%	238.2%	95.2%	115.5%	223.3%	4.5%	5.5%	10.6%
1990	55.9%	76.3%	147.4%	54.0%	73.5%	140.2%	2.6%	3.5%	6.7%
2000	41.4%	50.3%	88.2%	40.1%	48.7%	84.7%	1.9%	2.3%	4.0%
2010	14.7%	18.1%	39.2%	14.3%	17.6%	38.0%	0.7%	0.8%	1.8%
2018	6.8%	7.7%	17.8%	6.6%	7.5%	17.3%	0.3%	0.4%	0.8%

1. Values for 2022 are projected.
2. These are less than the corresponging increases in the PPD benefit schedule because of the discounting provision in statute.

IPD-PCE = Implicit Price Deflator for Personal Consumption Expenditures
CPI-U = Consumer Price Index for Urban Consumers
SAWW = Statewide Average Weekly Wage

Conclusion

- In the absence of any future changes, the largely fixed PPD benefit schedule will have fallen by half or more relative to prices and by 70% relative to wages from 1983 to 2022.
- The largely fixed PPD benefit schedule will have contributed an 9.6% decrease to the overall change in workers' compensation system cost per $100 of payroll from 1983 to 2022.
- If the PPD benefit schedule had been indexed to the statewide average weekly wage (SAWW) since 1983, the indexed schedule would have exerted a neutral effect on the workers' compensation system cost per $100 of payroll over the years.
- Restoring PPD benefits to where they would be if indexed for wages or prices since 1983 or a more recent year would substantially raise the cost. This would occur by means of reversing (wholly or partly) the annual cost savings relative to payroll that have accrued since 1983 as a result of non-indexing.

Thank you.

Questions?

David Berry
Research and Statistics
651-284-5208
david.berry@state.mn.us

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