
WORKERS' COMPENSATION

6-1 THE DEMAND FOR COMPENSATION

With the growth of the industrial revolution, the toll in human lives, injuries, medical expenses, and lost income rose rapidly for the men, women, and children employed in factories. Society found these results unacceptable and pushed for reform that would make jobs safer. They also sought to place at least some burden on employers to pay for the losses workers experienced. However, efforts were thwarted, because common law defenses gave employers a great deal of protection. If a worker wanted to obtain compensation or indemnity under common law, the worker had to sue the employer and prove that the employer's negligence was the sole cause of injury. The employee carried virtually all the risks in employment. Furthermore, an attempt to obtain compensation through a lawsuit was likely to result in loss of employment and ill will.

Common Law Defenses

In compensation lawsuits, employers could claim there was no negligence on their part. Three other common law defenses could also be used against an injured worker:

1. assumption of risk
2. contributory negligence
3. the fellow servant rule

Assumption of Risk The principle of tort law called *assumption of risk* says that if a person voluntarily assumes a risk and is injured as a result, he cannot be indemnified for the losses. This principle provided the employer near absolute protection against claims for work-related injuries of employees. By accepting a job, an employee assumed all the risks the job entailed.

Contributory Negligence If a plaintiff were able to prove negligence on the part of an employer and establish assumption of risk as an inadequate defense, an employer could claim contributory negligence. For example, assume an employee was caught in a machine and injured. The employer could claim that the employee acted carelessly (was negligent), and therefore had no reason to bring action against the employer. At worst, the employer might have to pay some compensation if both parties were negligent.

Fellow Servant Rule When assumption of risk and contributory negligence were not sufficient, employers often used a third line of defense. Because servants (employees) had certain duties toward each other, an employer could attempt to show that a fellow employee

was negligent and caused the injury of the worker. For example, suppose one worker fed material into a machine and another worker removed the material after the machine completed some action on it. Suppose also that the first worker accidentally started the machine and thereby injured the hands of the second worker. The first worker was negligent. The employer was not responsible for the injury.

Early Workers' Compensation Laws

After the Industrial Revolution, society found the stout defenses of the employer unacceptable. As a result, compensation claims were awarded more frequently, and awards grew larger.

Society in the industrialized nations of Europe and in the United States sought better ways to resolve job-related injury compensation. Near the dawn of the twentieth century, employers were ready for a change. A means for providing workers' compensation emerged. The United States followed the lead of Germany and England.

Early legislation tried to increase employer responsibility by removing some of the common law defenses: assumption of risk and the fellow servant rule. Some liability laws also changed contributory negligence to comparative negligence and allowed juries to determine whether the employer or employee was more negligent. Under employer liability acts, the injured worker had to take his claim to court, find fellow workers who would risk their jobs to testify for him, and avoid being coerced by the employer to sign a release from liability for an inadequate payment. The employers began to lose cases and pay larger awards. The employer liability acts, though an improvement, were still not fully adequate.

Workers' compensation laws followed. Several states and the federal government passed them. Initial laws were declared unconstitutional over issues of due process and mandatory participation by employers. Subsequent state laws were primarily elective, allowing employers to elect to come under the law. Since the first constitutionally acceptable workers' compensation law passed in 1911, all states have implemented such laws. They continue to change to include more workers, to broaden and modify benefits, to change administrative procedures, and to restructure benefit methods.

6-2 WORKERS' COMPENSATION LAWS

No-Fault Concept

In workers' compensation laws, employers and employees struck a balance in rights. Workers gave up the right to sue employers for compensation for injuries arising out of and in the course of employment. Employers agreed to provide compensation for work-related injuries as a cost of producing a product or service. Employers were no longer liable for negligence resulting in worker injury. Legal battles were no longer required to determine who was at fault.

Proliferation of Laws

There are at least 53 separate workers' compensation laws in the United States. Attempts to standardize compensation laws or create federal standards for them have not progressed very far. Each of the 50 states has its own workers' compensation law. The federal government has three compensation programs, each covering a different group of employees. The three acts are the Federal Employees Compensation Act, the Longshoremen's and Harbor Workers Act, and the District of Columbia Workmen's Compensation Act. There

are many differences among these laws. Changes occur continuously. The provisions, benefits, and changes are summarized in an annual report.¹

Types of Laws

Today there are two types of workers' compensation laws—compulsory and elective. A compulsory law requires each employer that is under its jurisdiction to accept its provisions and to provide for benefits as specified. Under an elective law, an employer has the right to accept or reject participation. If an employer rejects compliance with the law, he loses the three common-law defenses and is rendered virtually defenseless. In effect, elective laws are compulsory. Most early workers' compensation laws found constitutional were elective. Nearly all are now compulsory.

Objectives of Workers' Compensation Laws

There are at least six objectives for workers' compensation programs. They are:

1. Replace lost income and provide medical treatment promptly
2. Provide a single remedy without costly litigation and delays
3. Relieve public and private charities of financial drains
4. Encourage employer interest in accident reduction and prevention
5. Restore earning capacity and work capability of workers through rehabilitation
6. Encourage open investigation of accidents to prevent similar occurrences in the future (not to find fault)

One could debate whether these objectives are achieved by existing compensation laws. For example, some thought that employers would become more interested in safety by becoming responsible for indemnification of injured workers, but the competition among insurance companies for employers' business may have done as much for increased employer interest in safety. Insurance companies provide loss control services to employers. Preventing work-related accidents helps employers reduce claims and lower insurance premiums.

Workmen's Versus Workers' Compensation

Until the 1970s, *workmen's compensation* was the accepted term. *Workers' compensation* is now the accepted term because it does not infer gender.

6-3 WORKERS COVERED

Today workers' compensation laws cover approximately 90% of all wage and salary employees. However, several categories of workers are commonly excluded from protection. The exceptions vary among the different state and federal laws. Most common exceptions are domestic servants, casual (short-term, temporary) laborers, agricultural or seasonal farm laborers, volunteer workers, and workers who are covered by other laws (railroad and maritime workers). Recently, professional athletes were excluded. They often have injury compensation in their contracts. In many states, employers with fewer than two to five employees are also exempt. Under most laws, excluded employees may be covered through voluntary action of the employer. In some states, exempted workers must concur with an employer who elects coverage voluntarily.

In the past, states have avoided jurisdictional problems by not requiring public employees of local government units to be covered by compensation laws. Now most state laws require all public employees, whether career, elected, or appointed, to be covered. Here again, there are exceptions.

Under most workers' compensation laws, minors are covered. The definition of a minor varies slightly. For some states, minors who are illegally employed (below minimum age) and become eligible for compensation receive maximum benefits at double or triple the standard rates. This provides a penalty for the employer and accounts for lost future earning capacity of the minor. An employer may be subject to additional penalties under the law if an illegally employed minor is injured on the job.

6-4 BENEFITS

Eligibility Criteria

The main goal of workers' compensation laws is to compensate workers for injuries caused by accidents arising out of and in the course of employment. This goal gives rise to a number of issues regarding eligibility: What is an accident? What is an injury? What does "out of and in the course of employment" include? There are many interpretations to these questions.

Accident and Injury As noted in Chapter 3, the term *accident* suggests an event of very short duration. This was the meaning for early interpretations under workers' compensation claims. For most workers' compensation laws today, *accident* may refer to extended exposures and may recognize other factors. In the early 1980s, claims increased significantly for cumulative trauma injuries. These disorders result from repeated trauma to the part of the body affected, such as the arm of a carpenter swinging a hammer. More recently, claims for various forms of "job stress" have been on the rise.

The term *injury* was limited originally to physical damage to the body, such as cuts, punctures, fractures, and burns. Today most laws recognize a variety of job-related illnesses as a form of injury, but not all job-related illnesses are covered.

To avoid these language problems, different terminology is now being used. For example, the Federal Employees Compensation Act states that compensation will be paid for "the disability or death of an employee resulting from personal injury sustained while in the performance of his duty." It defines injury to include "in addition to injury by accident, a disease proximately caused by the employment."

Employment There are many legal questions regarding the definition of employment. Self-inflicted, intentional injuries are excluded, as are injuries resulting from willful misconduct (often including those resulting from intoxication), most injuries resulting from personal conflict with a fellow worker, and injuries occurring off the job. Many difficulties remain. The courts must answer these questions on the merits of individual cases. For example, are workers covered while going to and from work? Are they covered during lunch hours? Are they covered when intoxicated while performing job-related tasks, like a salesman wining and dining a customer? Is a heart attack at work covered? Is a worker covered when injured in a boating accident at a company picnic?

It is difficult to establish whether certain kinds of injuries occur during employment. For example, hernias, back injuries, and diseases with a latency period between exposure and observable symptoms all create problems in eligibility. A worker may file a claim stating that the injury was job-related and occurred on the job. Diagnostic procedures may

not be able to establish the time or place of injury to verify whether it was job related. Many of the laws have special provisions to deal with these problem cases.

Types of Disability

Most workers' compensation laws recognize four classes of disability: temporary total, permanent partial, permanent total, and death. Some states recognize an additional class: temporary partial. Definitions for and interpretations of each class vary by compensation law.

Temporary Total Disability Temporary total disability applies to a worker who is completely unable to work for a time because of a job-related injury. Eventually, the person recovers fully and returns to full job duties. No disability or reduction in work capacity remains after recovery. Most disability cases are temporary total cases.

Temporary Partial Disability This classification applies to injured workers who are unable to perform their regular job duties during the recovery period, but are able to work at a job requiring lesser capabilities. After recovery, the worker returns to work with full capability.

Permanent Partial Disability This classification refers to a worker who endures some permanent reduction in work capability but is still able to retain gainful employment. Examples of permanent partial disability include the *loss* of a body member, such as a hand, eye, or finger, or the *loss of use* of a body member, such as an eye, or permanent reduction in the movement or functionality of an elbow or other joint.

Permanent Total Disability This refers to a worker injured on the job and no longer able to work, even after medical and rehabilitative treatment. In many states, certain disabilities are classified as permanent total disability by definition. Defined impairments typically include loss of both eyes, loss of both legs, and loss of both an arm and a leg.

Benefits

Workers' compensation laws provide payments for medical expenses, burial expenses, loss of wages, and impairments. Most provide payment for physical and vocational rehabilitation. Some provide for mental rehabilitation.

Loss of Wages Injured employees receive compensation for their loss of earnings, which can occur under all the types of disability. Most laws provide a percentage of the average weekly earnings of the injured employee. Payment schedules usually have upper and lower limits. Because disability income is not usually subject to income tax, a claimant receives only a portion of regular earnings. The percentage (commonly 66²/₃%) may vary by type of disability, number and ages of dependents, and other criteria. Some states limit loss-of-wage payments to a maximum length of time (usually for temporary total disability). A few pay the difference between preinjury wages and postinjury wages when the injury reduces the earning capacity, but not the ability to be gainfully employed. Payments are made for life to a worker with permanent total disability. In the event of a job-related death, the dependents of the worker usually receive benefits for loss of income until a spouse remarries or dies and minor children reach adult age or complete school.

All workers' compensation laws require a waiting period before loss of wage payments begin. This waiting period ranges from one to seven days. However, if the disabil-

ity extends long enough (usually two weeks), then compensation starts on the first day of lost wages. The purposes for this waiting period are to reduce administrative costs for minor disabilities and to discourage malingering by workers.

Medical Expenses Workers' compensation payments normally cover unlimited medical expenses deemed necessary in the treatment of the injured worker. These include physician charges, hospital costs, physical therapy, cost of prosthetic devices, and many other medical costs. There is no waiting period before payment of medical expenses.

Burial Expenses All compensation laws provide an allowance or fixed payment for burial expenses. The allowance varies. Some laws provide an additional allowance for transportation of the deceased if the death occurred away from home.

Rehabilitation Expenses Physical rehabilitation is typically covered as a medical expense. Provisions vary considerably for vocational rehabilitation. Some states require the employer to pay for vocational rehabilitation. Some laws have maximum payments, limit the period allowed for training, or limit total expenses per case. Under the Federal Vocational Rehabilitation Act, states receive federal funds to help cover the cost of retraining persons disabled in industrial accidents.

Payments for Impairments Workers who sustain permanent partial disabilities receive compensation for the loss of a body member or the loss of its function (loss of use). The fundamental idea is that an individual's ability to work and earn an income is impaired by the disability. As a result, he will earn less over the rest of the working years. In most states, payments for impairments are in addition to payments for loss of earnings during the period of healing.

There are a number of theories for determining the amount of compensation. Three major ones are the whole-man theory, the lost wages theory, and loss of earning capacity. One or more of the theories may apply under a particular law.

Whole-Man Theory The whole-man theory considers only the functional effect of the loss—its impact on normal functions and abilities. The disability is rated as a percentage of a whole, fully functional person. A formula that relates degree of disability to income potential establishes disability payments. For example, in Nevada, compensation is $\frac{1}{2}\%$ of a person's average monthly earnings for each 1% of disability.

Lost Wages Theory The lost wages theory considers the actual loss in wages relative to a standard that estimates what the individual would have earned. When actual earnings are less than the standard and the reduction in earnings is the result of the impairment, the actual compensation will maintain the income at or near the standard.

Loss of Potential Earnings Theory The loss of potential earnings theory is by far the most common approach for paying compensation for impairments. Future earning capacity is estimated from such factors as impairment, age, occupation, gender, and education. The benefits are the difference between preinjury earnings continued into the future and estimated future capacity after injury.

Schedule Payments The administrative problem of evaluating each permanent partial disability has given way to the widespread practice of schedules. Schedules establish in advance the value of each kind of disability. Units for disability are weeks of lost earnings. For example, under the Federal Employees Compensation Act, the loss of a thumb

is worth 75 weeks. The value of the loss in weeks is multiplied by a percentage of the normal weekly wage of the person before injury. Practices in using schedules vary by state and the value of a scheduled loss can be quite different.

Functional impairments or loss of use are normally expressed as a percentage of total loss of the member or function. An impairment is the schedule value multiplied by the percent of impairment. For example, a 20% loss of use of a thumb in the preceding example would be worth 15 weeks (20% of 75 weeks).

Duration of Disability Most compensation laws use calendar days to establish the period of disability. Not counted are the day of the injury and the day an injured worker returns to work. All days between the injury and the return to work are counted as calendar days of disability. This avoids the problem of establishing the schedule that a person would have worked. Swing shifts, variable work schedules, flexible hours, holidays, plant vacations, layoffs, and the other work schedules do not create difficulties in computing benefits.

Loss of wages and payments for impairments usually are based on average weekly earnings. Sometimes monthly earnings determine death benefits. Many individuals have biweekly, monthly, or annual pay rates and conversions to weekly rates could affect actual payments. Each compensation law has its own procedure for computing time and rate conversions.

6-5 FINANCING

Types of Insurance

Depending on state regulations, one or more methods of providing workers' compensation insurance is available to employers: state-operated insurance, private insurance policies, or self-insured benefits. As of 1980, only six states required employers to participate in the state-operated insurance. Twelve states operated a state insurance fund, but permitted employers to purchase private policies from commercial insurance companies. Most states do not operate an insurance fund. At least forty-seven states allow employers to be self-insured, if they qualify.

Large corporations may reduce administrative costs by becoming self-insured. Group self-insurance arrangements also may be possible and allow smaller companies to benefit from self-insurance. To become self-insured, a company must create a large reserve fund to ensure that claims will be paid. Self-insurance programs often include a wide variety of employment types to avoid concentrating risks. Many companies cannot afford to establish the required reserve fund because the funds might be used better elsewhere in the company. Also, reserve funds are not always deductible for tax purposes, whereas insurance premiums usually are. In addition, self-insurers must maintain medical, legal, and safety staffs to administer the program, resolve problems, and work to reduce claims.

Cost of Workers' Compensation

U.S. employers spend approximately \$100 billion per year for workers' compensation insurance of all types. Although costs will vary, approximately one fourth of the expenditures are for medical care, nearly half for compensation payments, and less than one third for administrative costs and expenses for safety and health and legal services provided by insurers.

Premiums

Employee payroll forms the basis for workers' compensation insurance premiums: units for premiums are dollars per \$100 of payroll. Average costs are roughly \$2.00 per \$100 of payroll, but vary widely with employment type.

The National Council on Compensation Insurance, an actuarial organization, sets basic premium rates for most states. Rates are adjusted to keep up with changes in compensation laws. Each state has its own rate table or book. Tables include premium rates for many kinds of operations or work activities.² Rates for each state reflect different risks and claim histories that are accounted for in setting rates. The system for classification of operations or work activity used to be the Standard Industrial Classification (SIC) system. However, with many new kinds of work and international commerce, a new system is now in use called the North American Industry Classification System (NAICS). Some kinds of work had major changes in classifications.

It is somewhat complicated to determine the total premium paid by an employer. If an employer has one kind of operation, the premiums are based on the rate for that operation. If there are two or more kinds of operations, premiums will usually be based on the operation with the largest amount of payroll. If employees participate in several operations, the premium for those employees usually is based on the highest rated activity. For large, complex companies, combinations of rates usually determine the premiums.

Kinds of Rates and Discounts

Depending on provisions in applicable compensation laws, a number of methods may establish premium rates for an insurance customer. The key methods are manual rating, schedule rating, experience rating (prospective and retrospective), fixed rates, and premium discounts.

Manual Rates In manual rates, one applies premiums directly from the rate book for the applicable state. The premiums will be the same from all insurance companies. For example, a company engaged in sheet metal work has a payroll for the year of \$853,200. Assuming all employees are sheet metal workers and the manual rate is \$4.48 per \$100 of payroll, the annual premium would be $\$853,200 \times \$4.48/\$100 = \$38,223.36$.

Schedule Rates In the earlier days of workers' compensation, employers could receive a percentage reduction in the premium rates by engaging in certain hazard reduction activities that were listed in a schedule. This technique is no longer used, one major reason being that it was difficult and expensive to monitor compliance.

Experience Rating-Prospective Under this method, the accident experience record of a policy holder can influence future premiums. To avoid excessive fluctuation in the premiums, the experience of three years is used. The results of an immediate past year will affect the premiums three years later. Each state determines the average losses by employment classification (such as meat packing, carpentry, etc.). The average rate times the payroll for that category in a company determines the expected losses. If the actual losses for an employer exceed that expected based on state average loss rates, a surcharge will be added to the manual rate. If the actual losses are less than expected, a credit will be applied to the manual rate. The surcharge or credit is called the *experience multiplier*, *experience modification*, or *experience rating modifier*. This method provides an incentive to control losses.

Suppose the sheet metal firm above has experience rating modifiers during the three previous years of 1.32, 1.04, and 0.88, respectively. It would pay $\$38,223.36 \times 1.32 = \$50,454.84$ for its premiums next year, and $\$38,223.36 \times 0.88 = \$33,636.56$, two years later.

Experience Rating-Retrospective In a very similar method, employers with sufficiently large policies can affect their rates while the policy is in force, rather than waiting for three years. Before a policy is put into force, the employer and the insurer agree to a set of adjustments in premiums within upper and lower limits. Claim experience will affect premiums during the life of the policy (normally one year).

Fixed Rate Premiums For small companies that cannot qualify for experience rating modifiers, the manual rate in effect at the inception of the policy applies. The premium will change from year to year, depending on the losses of all businesses within the state for that employment classification.

Premium Discounts For large policies, administrative costs are relatively less than for small policies. As a result, states allow discounts for premiums in graduated steps based on total premiums paid. For example, there may be no discount for the first \$1,000 of premiums, 3% or more for the next \$4,000, and larger discounts for higher steps.

Competitive Premium Rates Until recently, workers' compensation premiums were fixed for each program. All insurers quoted rates from the same manual rate book. Competition among insurance companies was based on supporting services for clients. Recently, some states have initiated competitive premium rates in which insurance companies can set premiums on their own. Programs operated this way expect to produce lower rates, but often produce reduced loss control services.

Other Strategies to Reduce Workers' Compensation Costs A variety of methods are now in use to reduce workers' compensation claims and to put injured people back to work. The employer, employee, and insurer all come out ahead. One approach is dealing with the psychological and behavioral aspects of injured workers. Being removed from work because of injury, even if temporary, can create fears and stress for injured workers and their families. Supervisors, coworkers, and company staff often treat injured workers differently after a compensation claim is filed. The goal is reducing supervisors' negative feelings and employers' lack of concern. This method attempts to rebuild strained relationships and to make workers want to return to work. It seeks to build worker confidence, particularly when some job capabilities are lost.

Another approach involves systematic and objective evaluation of worker capabilities and job requirements. Special programs then rebuild physical strength and endurance through work hardening, modifying the workplace, or developing new job skills. Many hospitals now have worker rehabilitation programs that apply interdisciplinary evaluation and treatment to workers' compensation cases.

A number of states now require safety committees with participation by both management and labor. Building a cooperative environment and a team effort to reduce hazards and risks often lowers incidents and claims.

In some large, multicontractor construction projects, the project management firm or owner may use reductions in worker compensation claims to reward those contractors who meet project safety goals.

6-6 ADMINISTRATION

Efficient administration of workers' compensation programs keeps cost down. The fact that such programs are "no fault" relieves many of the delays in making compensation available to injured workers. Employers must notify employees of workers' compensation benefits and claim procedures and must keep records of claim-causing or potentially claim-causing injuries (usually other than first aid cases).

To initiate action, the worker must provide the employer with notice (usually written on a standard form) that he was injured on the job. Because the injuries happen on company premises, employers are aware of most injuries and they may assist with some formalities. As soon as an employee files a notice, the employer must file a claim with the insurance carrier and with the state agency (if it is not the carrier). In many cases, employer-maintained reports of on-the-job injuries are submitted with claims. After review and approval of a claim, payments are authorized and made.

Most payments are made by direct settlement. The insurer pays benefits at the prescribed rates. In some cases, the employer and employee reach an agreement on the benefits (subject to state approval) before funds are disbursed. Usually there is no dispute between employee and employer. In a third method, a commission or its representative reviews each claim to determine benefits. When employees believe that the compensation offered is inadequate, under most programs they may file an appeal within a certain time period (normally 1 to 3 years). Only 5% to 10% of the five million or more cases each year are contested. Each program has established procedures for reviewing cases and proceeding toward final resolution. There may be several levels of appeal, and an employee may engage an attorney in claim and appeal procedures. Many states have established approved fee structures for legal work in workers' compensation cases.

6-7 THIRD-PARTY LAWSUITS

As noted earlier, employees cannot file suit against their employers for job-related injuries. However, an employee may sue the manufacturer of a machine or product that caused injury. An employee may sue another employer on a multiemployer job site or another organization or individual involved in the injury-causing accident. In a few states, an employee can sue a fellow worker. After the theory of strict liability for products appeared, the frequency of third-party suits increased. Most often the suit is against a manufacturer of a product causing the injury or another organization contributing to the accident and injury.

Defendant manufacturers or other employers may initiate a third-party action against the injured worker's employer. Ultimately, the worker's employer may have to pay part of the settlement.

If an injured worker wins such a lawsuit and receives an award that is larger than that obtained through workers' compensation, the worker may have to repay the compensation obtained through workers' compensation. The employer may be able to place a lien against the third-party award to ensure repayment of workers' compensation benefits. If the third-party award is less than that obtained through workers' compensation, the employer may have to pay only the difference between the third-party award and what would have been paid by workers' compensation alone. All such adjustments would occur after payment of legal and other direct expenses for the suit. If the worker fails to win a third-party award, there is probably no loss in workers' compensation benefits.

Third-party lawsuits by injured workers are not the only means for achieving payment other than workers' compensation for job-related injuries. Under certain conditions, the employer may file suit on its own behalf or that of the employee against a third party. If the suit is on behalf of the employee, any award in excess of workers' compensation benefits and expenses necessary to bring the suit pass to the employee.

EXERCISES

1. Find out what the manual rate is for your state for
 - (a) paint manufacturing
 - (b) grocery store workers
 - (c) roofing work
 - (d) traveling carnival workers
2. For the occupations in Exercise 1, try to find out what the rates are for one or more neighboring states.
3. Obtain a copy of the workers' compensation regulations for your state and a neighboring state. Compare such factors as benefits paid for different disabilities. Compare procedures for submitting, processing, and appealing claims.
4. Discuss fairness of benefits and cost of workers' compensation premiums with
 - (a) a local attorney who deals in workers' compensation
 - (b) a local business executive
 - (c) a workers' compensation insurance broker or agent
5. Find out what the job duties are of an engineer who is a loss control representative for an insurance company.
6. Visit a rehabilitation facility at a local hospital or clinic that helps get injured workers back on the job. Find out how they approach minimizing workers' compensation claim costs.
7. A grain elevator is considering a location for a new plant. A site is to be selected in your state or one or more neighboring states. All employees fall into two job classifications, listed in the following table with annual payroll for each classification. Find out the current manual rates in order to complete the table below.

Job Classification	Total Annual Payroll (\$)	Your State	First Adjacent State	Second Adjacent State
Grain elevator operator	2,500,000	—	—	—
Truckman	850,000	—	—	—

- (a) If the company will pay manual rates for the first three years, what is the total cost of premiums over three years for each of the possible sites?
- (b) Compared with the site with the highest premium rates, how much is saved over three years at each of the other sites?

8. The company in Exercise 7 had the following experience rating for all job classifications:

Year	Rating
1st	0.92
2nd	0.87
3rd	1.21
4th	1.02

If there is no change in the manual rates over the years, what workers' compensation premiums will a company in your state pay for each of the four years after the initial policy?

REVIEW QUESTIONS

1. What are the three common law defenses that protect employers from legal claims for compensation resulting from on-the-job injuries?
2. When were constitutionally acceptable workers' compensation laws first passed in the United States?
3. What agreement was reached between employers and employees under the no-fault concept of workers' compensation?
4. What are the two types of workers' compensation laws?
5. How many workers' compensation laws are there in the United States?
6. What was the original term for workers' compensation?
7. What employees are often exempt from workers' compensation benefits?
8. What injuries does workers' compensation typically cover?
9. What are the four most commonly used classifications for disabilities? Define each.
10. What benefits are normally provided by workers' compensation?
11. What are schedule payments?
12. Describe theories used to establish payments for impairments.
13. Name seven methods for establishing workers' compensation premiums. Briefly explain each.
14. How can an employer reduce workers' compensation claims?
15. How can an employer reduce workers' compensation premiums?
16. What is a third-party lawsuit? How can it result from a workers' compensation case?
17. How is NAICS used in pricing workers' compensation premiums?

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