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Vol. 15, No. 4

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Total Permanent Disability in Washington

This article is based on a technical report titled Washington State Pension System in Review, which will be available from the Upjohn Institute in November.

Recently the Upjohn Institute completed a study of the incidence of total permanent disability (TPD) pension claims in the workers' compensation system of Washington State. As shown in Figure 1, the number of such awards nearly tripled from 1996 to 2003. Such claims are fairly rare in U.S. workers' compensation programs; the national insurance rate making organization reports that the "countrywide" (36-state) average incidence is about seven total permanent disability claims annually per 100,000 workers (NCCI 2008). That would mean less than 200 TPD pension claims in Washington each year.

The incidence in Washington is four to eight times that rate, and two to four times the level of the highest other states (California, Montana, and Florida). Because these claims are very expensive and the pensions last for life (or even beyond in Washington because of a survivor annuity option), this "surge" in TPD pensions gave rise to intense concern among policymakers in Olympia. As a result, the legislature called for a study of the causes of the rise, and the Upjohn Institute won the contract with the Washington Department of Labor and Industries (L&I) to design and conduct the study.

The Upjohn Institute assembled a team of experts from across North America to investigate this issue. In addition to reviewing the relevant documents and publications from Washington, the study involved a review of permanent disability compensation policy in Washington and other states, a direct comparison with a Canadian province sharing many workers' compensation system characteristics, a special claim review study that gathered detailed information from administrative files on a sample of Washington workers' compensation claims from 1997 and 2002, and empirical analysis of L&I data on workers' compensation claims.

Our analytical approach included comparing random samples of TPD claims awarded in 1997 and 2002 to discern possible causes of the "surge" in pension awards. We used propensity scoring to draw a matched sample of comparison claims that most closely resembled the TPD claims in these two years. We compared the characteristics of 1997 and 2002 pension claims and comparison claims to test specific hypotheses about causes of the surge.

Washington is one of only four states with a public fund that is the exclusive option for employers to insure their state mandated workers' compensation liability against industrial injuries and diseases (the others are Ohio, North Dakota, and Wyoming). In other states, private commercial casualty insurance

Figure 1 Number of TPD Pensions Awarded by Fiscal Year

SOURCE: L&I Research and Data Services

companies are allowed to operate in the workers' compensation market, frequently in competition with a public insurance fund (20 states). Self-insurance is also generally available for the largest employers, whose financial status justifies the assumption that they will be available to pay claims far into the future.

Findings

We determined that there was a significant "lumpiness" in claims processing that contributed to the surge in pensions. This inventory adjustment process for workers' compensation claims may have accounted for half of the increase in pension incidence during the relevant period. This increase was the unintended consequence of an administrative attempt to reduce the average duration of workers' compensation claims that began in 1997. The L&I administration reallocated 59 positions to attempt to improve claims administration in the middle of 1997. This was further augmented when the Washington legislature appropriated funds for an additional 24 claims manager positions, contingent on L&I reducing average time-loss duration 5 percent by June 30, 2000, and another 2.5 percent by June 30, 2001.

These time-loss goals were achieved, but one way durations were reduced was by referring long-term time-loss claims

for pension evaluation. This is reflected in Figure 2, which shows a doubling in the staffing level for pension adjudicators during this same period. The result was that a lot of older claims were cleared out of the workers' compensation system, and the average time-loss duration of claims receiving TPD pensions declined from eight years to six years.

There were a number of other factors that contributed to the surge, particularly the hard economic times in the state of Washington. This was demonstrated by the fact that our analysis showed that there was a 60 percent increase in the

number of pension awards to workers from economically disadvantaged areas of the state from 1997 to 2002. Among other possible causative factors that we investigated were the age of injured workers; the number and severity of their injuries; the frequency of back injuries and psychological claims; the type of treatment, including use of opioid (narcotic pain killer) prescriptions and spinal fusion surgery; previous claims; appeals; legal decisions; self-insurance and the second injury fund; and vocational rehabilitation practices. Our multivariate analysis of L&I claims data explained about one-half of the variation in pension outcomes between 1997 and 2002.

However, Figure 3 shows that the number of compensable claims still active after five years continued to increase during the period of the surge, as did the percentage of all compensable claims active after five years. So, in addition to the increase in pension claims caused by the administrative attention to claims management, there was an underlying surge in the number of long-term claims in the Washington workers' compensation system.

Conclusion

We believe that there are specific provisions in Washington that may serve

Figure 2 Pension Adjudicator Staffing

SOURCE: Data Warehouse, Department of Labor & Industries.

Figure 3 Five-Year-Old Active Claims

SOURCE: L&I Actuarial Department.

leads to longer durations of time loss and ultimately more total permanent disability pension awards.

H. Allan Hunt is a senior economist at the Upjohn Institute.

to increase the frequency of TPD claims as well as the duration of temporary time loss. This has to do with the articulation between partial and total permanent disability in the workers' compensation system. This problem is illustrated by the example of the professional concert pianist who loses the end of her finger in a work-related accident. While her physical impairment (medical disability) may be relatively slight, it could mean a total loss of her ability to earn her living (economic disability). Washington awards permanent partial disability payments strictly on the basis of the impairment rating resulting from the injury or disease. They are 1 of 19 states in the United States who follow this practice.

But only six of these states also limit the use of lump-sum settlements in workers' compensation cases. In Washington the worker is totally disabled for the purposes of a pension when the injury or disease permanently incapacitates the worker from obtaining and performing any work at any gainful occupation, or for specific losses enumerated in the statute. So for the injured pianist in Washington, the workers' compensation system would likely award her only a very small permanent partial disability benefit, since she would be capable of performing many other jobs. The pianist might

receive only a three percent impairment rating for the loss of part of a finger, but suffer a 100 percent loss of earning power as a concert pianist.

Washington does not allow compromise and release settlement of workers' compensation claims. It believes such settlements are generally not in the best interest of the injured worker. In the private insurance sector, these compromise settlements are regarded as a way to accommodate difficult or unusual situations in the workers' compensation system, regardless of the statutory language. So, in a case like the concert pianist, the parties might reach a compromise settlement that provides a middle ground between the two extremes.

Where a work-related injury or disease is preventing the worker from earning a living as before, but that did not cause a highly rated medical impairment, the claims manager in Washington faces a choice between a relatively low impairment rating with consequent low benefit, or a TPD pension, with no way to compromise in between. In addition, there is no coverage of medical treatment for pension claims (except for contributing co-morbidities), so the most equitable solution available to the claims manager may be to leave the worker on temporary time-loss benefits. We believe this lack of flexibility in compensating permanent partial disability

Maude Toussaint-Comeau

Strategies for Improving Economic Mobility of Workers

The issue of economic opportunity for the disadvantaged has grown in importance. It is well known that inequality in economic outcomes has increased. Those at the lowest end of the wage spectrum, with less education and fewer skills, have limited opportunities for economic mobility. Some people are working but they remain poor, nonetheless. How can we address the specific needs of low-wage workers and households in poor communities and help open the door to greater economic opportunity?

There are no simple solutions, and research should help to design more effective policies for helping low-income workers and the poor. In November 2007, the Chicago Fed and the Upjohn Institute for Employment Research cosponsored a conference to generate dialogue on how to promote economic opportunities for disadvantaged workers. The goal was to present and synthesize fresh research on policies and initiatives affecting low-wage workers and other vulnerable or disadvantaged populations, to identify best practices in workforce development initiatives, and to extract lessons for devising effective policies. The conference provided a forum for researchers, public officials, and community development practitioners to discuss meaningful ways in which to implement some of these ideas.

The forthcoming book *Strategies for Improving Economic Mobility of Workers* is an outgrowth of the conference. It presents a compilation of papers from leading experts commissioned to write about ongoing and emerging issues facing policies affecting the poor. The chapters in the book address the following specific questions:

- What are the trends in wages, work, occupations, and economic resources—the “material circumstances” of low-income workers—and what are their implications for economic mobility?
- How well do education retention programs work in meeting the need of low-income adults?
- What are the shortcomings of financial aid policies in serving nontraditional students, and how can policies be altered to better serve them?
- How effective are residential mobility programs?
- How effective are Earned Income Tax Credit (EITC) and welfare reform in improving the lives of single women with children?
- How effective are various workforce investment programs in linking workers to work and to greater economic opportunities?
- How well do correctional programs work in helping ex-offenders reenter the labor market?
- In evaluating community-based programs and services, what should practitioners know about the limits of such evaluation and what should they do?

Chapter Content

The first part of the book includes an overview of the research and discussion from the conference. The author addresses the specific contributions of the speakers and papers included in the volume. She concludes with an outline of the recurring themes of the conference, drawing from some of the lessons learned from the diverse perspectives, and identifying key challenges and opportunities.

The 10 remaining chapters form the second part of the volume; each tackles aspects of the questions outlined above,

identifies major trends and problems, assesses what the research informs us regarding the effectiveness of the policies in redressing the challenges, and offers alternative policies where needed. Collectively, the chapters offer a provocative look of the state and effectiveness of some major policies and programs.

Trends in Wages, Employment, Poverty—Low-Income Assistance Policy

The first chapters in part 2 of the volume provide an overview of the data analyses and research surrounding the “material circumstances” (wage, income, employment and poverty trends) and of low-wage workers in the United States. These trends provide the background for policy considerations discussed for the situation of workers today.

David Autor, professor of economics at Massachusetts Institute of Technology, sets out the main facts about the trends in wage and occupations for low-income workers. In his chapter, “Past Trends and Projections in Wages, Work, and Occupations in the United States,” he confirms that increased economic inequality has been evident. The income level for families at the lower rung of the income distribution is probably insufficient for them to make optimal investments in child-rearing and education. This suggests that mobility over the lifetime and across generations could be more limited for such families. The chapter is compelling in its demonstration of what is referred to as “a process of employment ‘polarization’—in which job growth is concentrated among both highly education-intensive ‘abstract’ jobs and comparatively low-education ‘manual’ jobs.” This presents both challenges and opportunities. As Autor writes, the rising productivity of highly educated workers is good news. But the growing importance of manual and service tasks presents a challenge. As he points out, “The positive news about rising demand for in-person service occupations is that it will tend to increase the earnings of less-educated workers. The less favorable news is that wages for

those at the bottom will remain low and would not be enough to ensure mobility for these workers.”

Wage data may not give us the full picture of the true economic conditions of low-wage workers since these workers may receive assistance such as Food Stamps and Medicaid. Bruce Meyer, professor at University of Chicago, makes the point in his chapter, “Reflections on Economic Mobility and Policy,” that we must also think of the trends in terms of the overall “material circumstances” of workers. That is, we should have in mind not only wages, but also food consumption, housing quality, purchases of other goods, and access to health care. An important finding from his research shows that if we look at consumption poverty numbers, there are causes to be somewhat more optimistic about the true “material” circumstances of people. As explained in Meyer’s chapter, from 1988 to 2005 the percentage of people who are poor, as measured by “consumption poverty,” actually has fallen consistently. For example, by 2004, while the official income poverty rate was close to 14 percent, if measured by consumption income adjusted for inflation, the rate was only 5 percent. Meyer also notes that, similarly, the living standards of people in the United States have improved more than official measures suggest, once one accounts properly for inflation. Although this research is encouraging, it does not mean that there is no need for policy. On the contrary, as Meyer proposes, some of the policies and initiatives (such as the EITC, welfare reform, and economic growth) have worked and should be maintained and extended.

Hilary Hoynes, professor at the University of California-Davis gives a brief history of the EITC and welfare reform and analyzes what they entail for trends in employment. In her chapter, “The Earned Income Tax Credit, Welfare Reform, and the Employment of Low-Skilled Single Mothers,” she shows that employment (defined as any work over the prior calendar year) increased by 16 percentage points from 1992 to 1999 for single mothers and by 20 percentage points for single mothers with less

education, the latter of whom tend to be more affected by EITC and welfare reform. No such improvement occurred for any other groups. Hoynes argues that it is difficult to disentangle the effects of EITC, welfare reform, and an expanding economy, all three of which were happening over the period covered by her analysis, where she observed increases in employment and earnings.

Low-Income Adult Student— Education Retention Programs and Financial Aid

One recurring policy topic throughout the conference was access to education. The question remains how to promote education among adult low-wage workers whose skills may not be readily transferable or adaptive to the changing labor market. What type of education is best for these workers, and how should it be provided? How do we design financial assistance that will help meet the need of nontraditional students? Investment in universal education is vital to ensure that all workers have the skills necessary to adapt to a changing labor market. In addition, in the more immediate future, job and vocational education opportunities, such as community college education for adult workers and nontraditional students must be part of a comprehensive strategy to address mismatches between job requirements and worker skills. Retention in educational programs, accessibility, and affordability remain challenges for many workers who could benefit most by enhancing their skills. These are the themes of two chapters included in the forthcoming volume.

In “Low-Wage Workers and Postsecondary Education Persistence: A Review of Several Community College Strategies,” MDRC senior associate Lashawn Richburg Hayes argues that indeed community colleges play a critical role in American higher education, and most importantly for low-wage workers who may need to upgrade their skills. But in reality, many students, especially the low-wage workers who begin attending community colleges, end up leaving prematurely. Family

obligations, academic underpreparedness, and financial constraints make this group particularly vulnerable to retention problems. Hayes describes various strategies, in particular, the Opening Door Demonstration by the MDRC, that are in place to improve persistence and retention of low-wage workers in community colleges.

Harvard University professor Bridget Terry Long makes the case in her chapter, “Financial Aid and Older Workers: Supporting the Nontraditional Student,” that given the importance of education, particularly postsecondary education, larger percentages of older workers are returning to higher education than ever before (that is, 8 out of 10 new jobs created over the next two decades will require some postsecondary education). However, these nontraditional students confront a major hurdle with finances. Simply put, Long’s research finds that the financial aid system is designed to meet the needs of traditional-age college students and fails to address the needs of older, nontraditional students. Nontraditional students tend to be displaced and unemployed workers, welfare recipients, and have dependent children, among other characteristics. Financial aid is therefore particularly relevant for these groups. Yet, Long explains, the different ways in which the design elements of the current system (such as how needs analysis is applied to nontraditional students) and the number of hours needed to meet enrollment requirements do not cater to the circumstances of these students. Long’s chapter suggests several creative ways to reform the financial aid system and support low-income workers.

Spatial Mismatch

Spatial mismatch between residents in inner-cities and areas with job growth remains a potential problem to moving certain segments of workers in the labor market. Housing allowances help these potential workers move outside areas of minority and poverty concentration. The residential mobility programs, by moving individuals to better environments, create the potential for very quick changes

in their lives, especially with regard to safety. James Rosenbaum, professor at Northwestern University, addresses the subject in his chapter, "Can Residential Mobility Programs Improve Human Capital? Comparing two Different Programs." He analyzes the effects of two programs, the Gautreaux program and the Moving to Opportunity (MTO) program, and demonstrates that attention must be given to how the housing voucher programs are crafted procedurally, in order to ensure changes in labor market outcomes. Rosenbaum points out that building best practices into the program deliveries is as important as seeking to evaluate the outcomes. One best practice noted in a housing voucher program, for example, is the necessity to incorporate *counseling* in service delivery.

Workforce Development Policy and Program Evaluation

Four chapters focus on policies and programs that provide employment training and assistance, which generally fall under the umbrella of "workforce development" as ways to address specific needs of targeted disadvantaged individuals who have particular problems assessing the job market.

Harry Holzer, professor of public policy at Georgetown University, in "What Might Improve the Employment and Advancement Prospects of the Poor?" proposes various potential alternatives and discusses the effectiveness of existing programs that have been targeted to three different groups: 1) the working poor, 2) disadvantaged youth, 3) and hard-to-employ ex-offenders.

Burt Barnow and Jeffrey Smith, professors at Johns Hopkins University and the University of Michigan, respectively, focus on the bottom line question: whether or not the programs have measurable and economically relevant impacts on labor market outcomes. In their chapter, "What We Know About the Impacts of Workforce Investment Programs," they discuss the state of knowledge based on more robust research evaluations of the effectiveness of various programs, including the Workforce Investment Act, the Job Corps,

the Worker Profiling and Reemployment Services. Barnow and Smith also discuss employer-focused programs, which provide on-the job training, customized training, and sectoral training.

Continuing with the theme of work training program evaluation but targeted to hard-to-employ/ex-offender populations, John Tyler, professor at Brown University, and Jill Berk, PhD candidate at Brown University, discuss the research results on programs designed to help ex-offenders reintegrate into mainstream society. The programs include the Center for Employment Opportunities (CEO) program and the Serious and Violent Offender Re-entry Initiative (SVORI). Their chapter, "Correctional Programs in the Age of Mass Incarceration: What Do We Know About What Works," also discusses some research findings on the effects of education and vocational programs on ex-offenders' earnings, based on administrative data from the state of Florida.

Robert LaLonde, professor at the University of Chicago, provides a provocative view of program evaluation. In "Comparing Apples to Oranges when Evaluating Community-Based Programs and Services," he discusses the inherent (analytical and methodological) problems and challenges associated with evaluating the impact of programs from small community-based organizations. He suggests that in many instances organizations may be better off not diverting valuable resources on impact evaluation or cost-effectiveness. They may be better off simply measuring and collecting data on program services. LaLonde argues that this can provide valuable information about how the program operates or how services are delivered and the challenges that need to be overcome in order to affect recipients' outcomes.

Conclusion

Developments in the labor market, such as stagnating or declining real wages for low-skilled workers, compel us to pay attention to the particular economic circumstances of low-wage

workers and reinforce the need for a better understanding of the policy dimensions affecting the poor. The chapters in this book offer a provocative and nuanced assessment of the state and effectiveness of labor policy and practices geared to redress a number of issues affecting the low-wage workers, hard-to-employ individuals, and other targeted populations.

Maude Toussaint-Comeau is an economist at the Federal Reserve Bank of Chicago.

New and Recent Books

Income Volatility and Food Assistance in the United States

Dean Joliffe and James P. Ziliak, Editors

Income volatility, the up and down fluctuation of families' incomes, has emerged as a key input in policymaking across the macroeconomy. From labor markets to housing markets to financial markets, the impacts of income volatility are substantial though often difficult to predict.

Particularly susceptible to income volatility are the nation's food assistance programs. The USDA supports 15 such programs including the Food Stamp Program, the National School Lunch Program, and the Special Nutrition Program for Women, Infants, and Children (WIC).

This new book provides a much-needed look at recent trends in income volatility and its effects on the design of and participation in critical programs that assure children and needy families have access to food. It begins with an examination of the patterns of income volatility among various demographic groups and whether volatility affects families' consumption patterns or whether they are able to smooth consumption over time despite income changes. It then focuses on how income volatility influences the way people participate in the most-used food assistance programs and the way policymakers design them. The book also highlights the important implications income volatility has for baby boomers (who, as they age, will be more likely to take advantage of food assistance programs); low-income families; and people with learning, mental-health, or physical difficulties.

309 pp. 2008. \$40 cloth 978-0-88099-336-4
\$20 paper 978-0-88099-335-7.

Who Really Made Your Car?

Restructuring and Geographic Change in the Auto Industry

Thomas Klier and James Rubenstein

"A magisterial, encyclopedic review of who really makes the 15,000 parts and components in your motor vehicle. More importantly, the authors examine the trends in technology, markets, and companies that will determine where future auto parts will be made and who will get the jobs in America's largest manufacturing industry: auto parts manufacturing. No one has ever done this better in terms of information, insight, and clear, entertaining prose."—Sean P. McAlinden, Center for Automotive Research

"Klier and Rubenstein have turned the spotlight where many have seen only darkness and failure. The automotive supply business is responsible for 3/4 million jobs and several hundred billion dollars in the U.S. economy each year, yet I would wager that most people do not have a clue about the reach, complexity, and importance of the automotive supply chain. This book clears all that up."

—W. Jeff Jeffery, IRMCO

"[This book] is a well researched primer on the auto parts industry, with a treasure trove of facts, data, and anecdotes. The authors chronicle the rich history of the auto supply base and its key players, reminding us of how the industry has changed and continues to change over the years."—Dennis C. Cuneo, Arent Fox LLP

419 pp. 2008. \$40 cloth 978-0-88099-334-0
\$20 paper 978-0-88099-333-3.

How Do We Spend Our Time?

Evidence from the American Time Use Survey

Jean Kimmel, Editor

Economists have long been interested in the analysis of how people decide to spend their time. Up until recently, however, studies of this nature were limited by a lack of high-quality time-use data. In 2003, after years of study and preparation, the U.S. Bureau

of Labor Statistics initiated the annual American Time Use Survey (ATUS). Respondents report how they spend their time (in 15 minute intervals), with whom, and where. These detailed data open a window on how Americans spend their time and afford economists the opportunity to gain a better understanding of everyday life.

This new book offers contributions from a number of noted economists who exploit this new source of data to reveal findings that have numerous implications for the U.S. labor market. Topics examined include child care, housework, household production and consumption, and shift work. In each case, the focus is on the value of time and how time spent on one activity instead of another represents value gained for the first activity and value lost for the second.

Contributors include Daniel S. Hamermesh, Nancy Folbre, Jayoung Yoon, Cathleen D. Zick, W. Keith Bryant, Jennifer Ward-Batts, Jay Stewart, and Anne Polivka.

188 pp. 2008. \$40 cloth 978-0-88099-338-8
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